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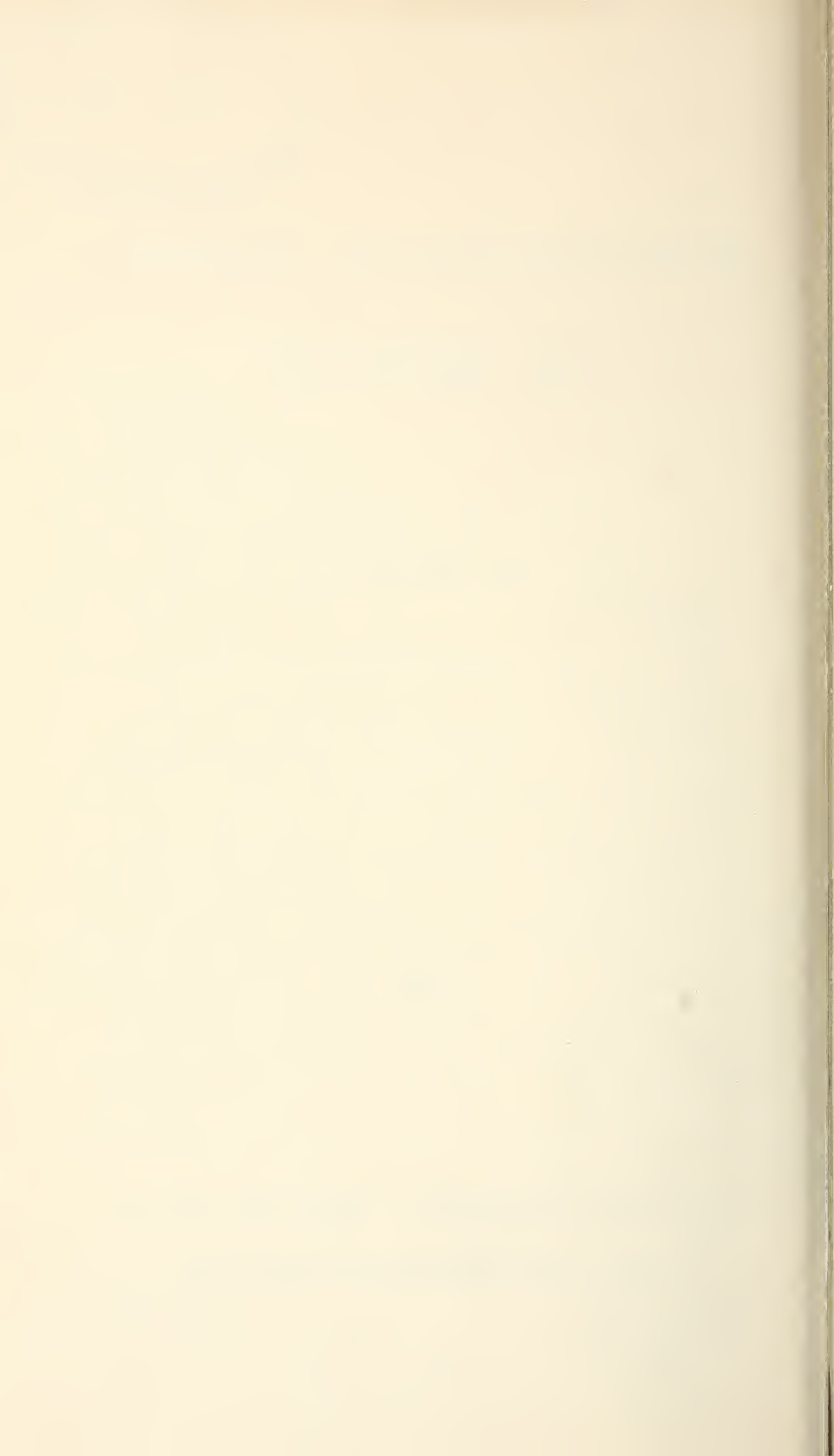
AGRICULTURAL CREDIT IN MEXICO

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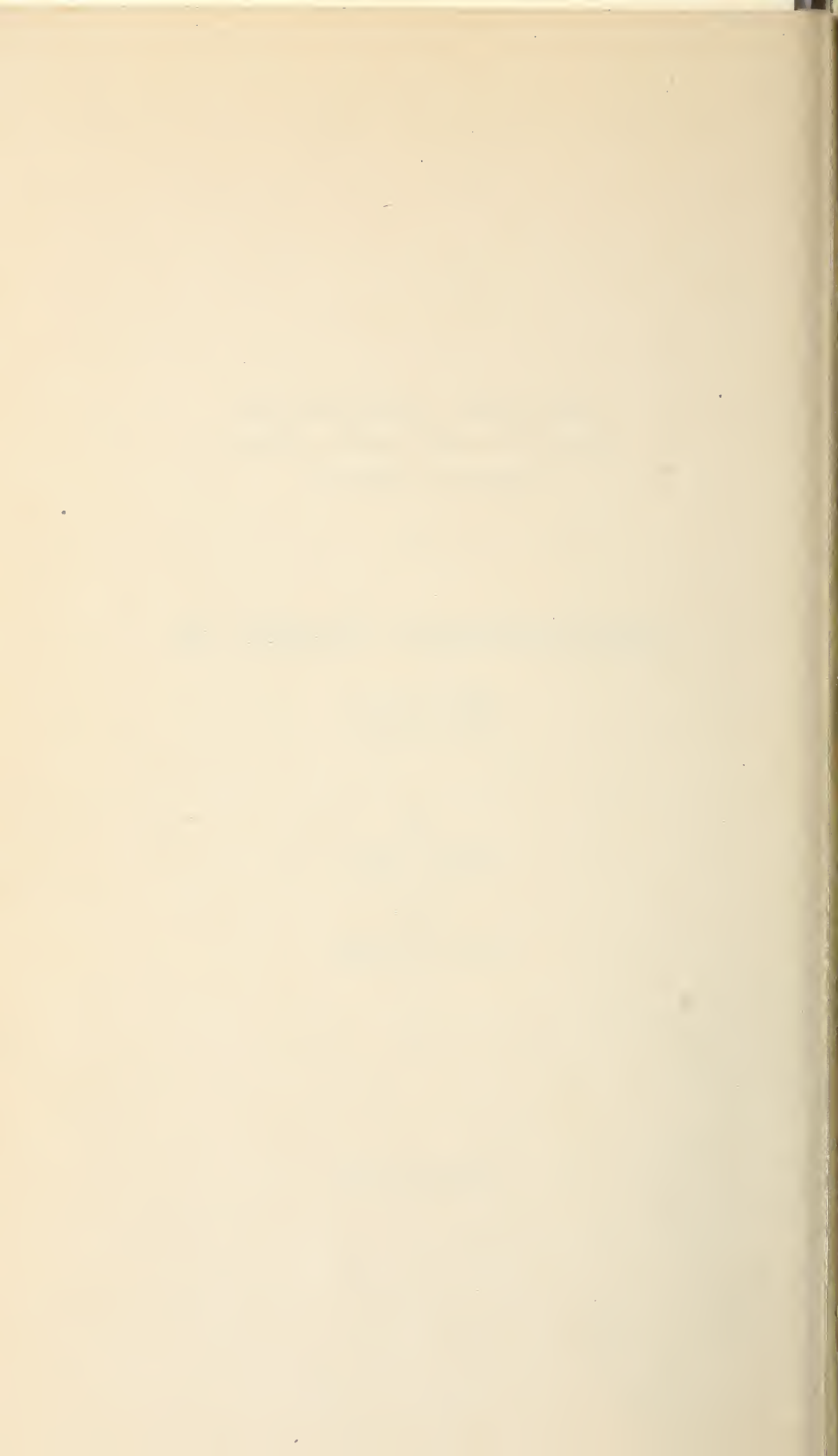
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Preface

The collection of material on phases of foreign agricultural credit most pertinent to certain operating problems confronting the Farm Credit Administration yields much general information which may prove of interest to students of agricultural finance and offer points of departure for further study. For this reason and also because no comprehensive surveys of the organization and operation of agricultural credit systems in foreign countries have been made in recent years, the Farm Credit Administration is publishing a series of reports incorporating such information.

The first two reports covered *Germany* and *Denmark*, countries having farm credit institutions of long standing in the field of long-term as well as short-term lending; the third report concerned *Canada* our neighbor to the North, while this, the fourth, is designed to summarize the structure of agricultural credit in *Mexico* our closest neighbor to the South.

Thanks are extended to Ing. Ramón Fernández y Fernández, research director of the National Agricultural Bank and professor of agricultural economics at the National University and the National Agricultural School of Mexico, for reviewing the manuscript, for making many valuable suggestions, and for making available the information contained in the appendix. Additional thanks are extended to Hurshel E. Underhill, Economist, Farm Credit Administration, for his editorial contributions and for writing Chapter I, Main Characteristics of Mexican Agriculture.

Chapter I

Main Characteristics of Mexican Agriculture

THE Republic of Mexico is the southernmost country of North America. It lies in both the temperate and torrid zones and comprises a land area of 758,258 square miles, the chief characteristics of which are a roughly triangular configuration, a climatic range graduating from tropical to cool temperate, and a mountainous terrain. The chief topographical feature is the central plateau extending lengthwise down the country in a northwest-southeasterly direction. Average temperature of the plateau region is from 60 to 70 degrees Fahrenheit, that of the coastal plains from 80 to 90 degrees, temperature variation in Mexico generally being the result of elevation and not of latitude.

The density of population is greatest in the plateau region, especially in the areas adjacent to Mexico City. According to the most recent estimates, the population of the Republic is 19,154,000.¹

Agriculture is the basic occupation of the Mexican people. Since the 1930 agricultural census defined as arable any tract of land over 1 hectare (2.47 acres) in size which was cultivated at least 1 year during the 5-year period preceding the census, 14.5 million hectares (35.8 million acres) represents the maximum arable land. The Census indicated that about half of this area was allowed to lie fallow in 1929-30. Crop varieties range from henequen fiber of lowland, subtropical Yucatán to the wheat produced on the plateau highlands of central Mexico.

Corn is cultivated in almost every section of the Republic. Because climatic conditions vary greatly in the several corn producing areas, totaling about seven and a half million acres, many different types of corn are grown. Virtually the entire corn crop is required for domestic consumption.

Frijoles (beans) and garbanzos (chick-peas) are also grown, the heaviest production centers being in the central and west coast regions. Most of the frijol crop is consumed domestically,

¹Total population according to the census of 1930 was 16.5 million people, of which 3.6 million were engaged in agricultural occupations and represented 70.2 percent of the 5.2 million gainfully employed.

while in normal times a considerable amount of garbanzos is exported to Europe, especially Spain, to South America, to Cuba, and to the United States.

Cotton is produced largely in the La Laguna region, which is an irrigated area comprising parts of the States of Durango and Coahuila and embraces the two important textile centers of Saltillo and Torreón. Total cotton acreage for the Republic ranges around 700,000 acres and the annual production is usually about 280,000 bales, with most of the production used in the country.

Henequen fiber, sometimes referred to as sisal hemp, is one of Mexico's important export crops. It is an indispensable raw material for binder twine manufacture. This fiber is cultivated almost exclusively in the peninsular States of Yucatán and Campeche where the limestone soil and the warm, humid climate of the southern lowlands furnish desirable growing conditions. About 210,000 acres are devoted to henequen culture. Of the 80,000 short tons of annual production, some of it is exported to the United States and to Canada.

Within the last few years, bananas have become one of Mexico's important export crops, the largest importer being the United States. Since banana growing requires a subtropical climate, most of the plantations are in the southern and coastal areas. Tabasco, Oataca, Veracruz, Michoacán, and Chiapas have extensive areas devoted to banana culture.

Wheat is widely cultivated on the irrigated lands in the upper levels of the central plateau, especially in the La Laguna district, in the Yaqui Valley on the west coast and in the States of Michoacán, Guanajuato, and Sonora. About 1,300,000 acres are at present devoted to wheat production. Imports from the United States were often necessary in the past, but during recent years the wheat acreage and yield per acre increased to an extent sufficient to preclude the necessity for supplies from abroad.

Chicle, a gum derived from the zapote tree and used in the manufacture of chewing gum, is produced throughout the area extending from the Tuxpan district in northern Veracruz through Yucatán, the largest producer, and as far as the southern portion of the State of Campeche. The United States is the largest purchaser of Mexican chicle.

Coffee, a major agricultural export item, is produced in the Caribbean coastal States of Veracruz, Chiapas, and Oataca on inland plantations situated at a moderate altitude. About 240,000 acres are under coffee cultivation. As coffee drinking in Mexico is supplemented by beverage cocoa, nearly 90 percent of the approximately 45,000 short tons of coffee annually produced is shipped abroad.

Winter vegetables such as tomatoes, lettuce, and peas are important miscellaneous crops and constitute an export item. These are for the most part cultivated on the west coast and shipped to the United States during winter months. Oranges, apples, peaches, pears, lemons, and other fruits are grown, while sizable crops of potatoes, tobacco, vanilla, and zacatón root, used in making coarse brushes, are cultivated.

To a considerable extent the Mexicans may be proud of their livestock industry. In 1941, there were approximately 30,000,000 head of livestock. This figure included cattle, horses, mules, donkeys, sheep, goats, and hogs on the grazing lands covering an area of 120,500,000 acres.

During the last 17 years the attitude of the Government has been more favorable toward agriculture. More positive and extensive action in developing this branch of endeavor was taken so that it may more fully benefit the majority of Mexican people. The extension of agricultural credit to farmers and the division of lands have been undertaken, with the objective that the agrarian movement be devoted to a renaissance of agriculture as a fundamental factor of Mexican life.

Within the compass of the following pages is set forth a detailed description of the origin and development of Mexico's Government-sponsored agricultural credit system. The final chapter contains a discussion of the working of Government-sponsored credit institutions of the Republic.

Chapter II

Historic and Economic Background

THE LAND RESOURCES

MEXICO is predominantly agricultural. Extensive areas of the country, however, are subject to uncertain weather conditions as are the drought and dustbowl regions of the United States. Uncertain weather conditions exist over more than three-fourths (79 percent) of the arable land in Mexico. When rainfall is sufficient the land will produce satisfactorily. At other times, however, there may be several successive years of drought with the result that sufficient moisture is not available to grow crops season after season. However, efforts are being made to put larger areas under irrigation, especially in the north and central plateaus, as capital and transportation are made available.

FIGURE 1

AGRICULTURAL ZONES OF MEXICO



Of the total land area, which measures 196 million hectares (484 million acres), 33.2 percent consists of mountains, rivers, etc.; 10.2 percent is completely unproductive owing to the nature of the soil; and only 56.6 percent has any productive agricultural value (table 1). This agricultural area includes 14.5 million hectares of arable land (13.1 percent of the agricultural land or 7.4 percent of the total area), the rest being forests, pastures, and uncultivated areas producing certain hard fibred plants, such as ixtle, which are harvested in a wild state. The area actually under cultivation was considerably less. In fact, only 7.2 million hectares (6.5 percent of the total agricultural area and 49.7 percent of the arable land) were cultivated in 1929-30. Lack of systematic crop rotation and fertilizer application were in good measure responsible for such extensive cultivation. The modernization of Mexican agriculture is now progressing rapidly under the impetus given the land reform by the Agrarian Code of 1934.

TABLE 1. - *Distribution of land by agricultural zones, 1930*

Zone	Agricultural area	Arable land	Total area
	<i>Percent</i>	<i>Percent</i>	<i>Percent</i>
North Pacific.....	9.9	6.3	21.0
North.....	55.1	20.5	40.8
Central.....	14.5	36.4	14.1
Gulf.....	10.8	19.9	12.0
South Pacific.....	9.7	16.9	12.1
Total.....	100.0	100.0	100.0
	<i>1,000 hectares</i>	<i>1,000 hectares</i>	<i>1,000 hectares</i>
Area of Mexico.....	110,800	14,518	196,367

Source: *Anuario Estadístico de los Estados Unidos Mexicanos 1939*. Table 180, pp. 390-391.

From tables 1 and 2 one may observe how unequally the Mexican population is distributed with respect to the land resources available. Almost half of the population (48.6 percent) lives in the central states although this zone covers only 14 percent of the total area of the country. The same ratio applies when only agricultural land and population are considered. Again the central zone predominates with 45.4 percent of those engaged in agriculture although it comprises but 14.5 percent of all agricultural land. On the other hand, the northern zone includes 55 percent of the agricultural land and only 18.4 percent of the agricultural population. This phenomenon is due to various climatic and geographic conditions as well as certain social and historic factors and does not mean that good agricultural

conditions and the best soil are found only in the central zone and in every portion of it. As a matter of fact, such concentration is out of all proportion to the agricultural resources of the region.

TABLE 2. - *Distribution of population by agricultural zones, 1930*

Zone	Gainfully occupied	Engaged in agriculture	Total population	Population engaged in agriculture	
				Gainfully occupied persons	Total population
	<i>Number</i>	<i>Number</i>	<i>Number</i>	<i>Percent</i>	<i>Percent</i>
North Pacific.....	975,565	666,104	3,132,989	69.4	22.5
North.....	648,189	479,944	2,082,662	68.3	21.3
Central.....	316,182	219,453	975,029	65.8	20.5
Gulf.....	720,847	613,260	2,318,145	74.0	23.0
South Pacific	2,505,020	1,647,517	8,043,897	85.1	26.5
Total.....	5,165,803	3,626,278	16,552,722	70.2	21.9

Source: *Primer Censo Agrícola-Ganadero 1930. Resumen General*, p. 14

THE AGRARIAN PROBLEM

The task of providing credit to farmers in Mexico is so bound up with the so-called agrarian problem that it is necessary to examine the tenure and social conditions of those working the land before entering upon a discussion of the financial aspects involved.

In 1910, the year the Mexican Revolution broke out, 2 percent of the population owned about 70 percent of the land; in some districts 98 percent of the heads of families were landless. In this same year, 51 percent of the entire rural population lived in villages, 2 percent in other rural communities, while 47 percent lived on huge landed estates or *latifundios*.

Pre-revolutionary *latifundismo* was a system of large-scale farming characterized by absentee ownership, large resident populations of poverty-stricken *peons* who worked the land in exchange for a minimum of life's necessities. Therefore, little operating capital was required and risks were small, but such methods resulted in uneconomic exploitation of the land. These large estates usually increased through an accumulation of small holdings and communal lands of the native villages. The *latifundista* (owner of a large estate) encroached upon or acquired the properties adjacent to his own, sometimes by purchase - seldom at equitable prices - sometimes by winning a case in the strongly biased courts taking advantage of some flaw in the title, or even by violence. Many of the independent small holders became

entangled because they accepted loans from the neighboring *latifundista* and ultimately lost their heritage to him.

Correction of such abuses was one of the aims which put the whole Mexican people behind the political upheaval of 1910 and inspired them to carry it through to successful conclusion. As soon as the revolutionary forces were in a position to organize public authority, the first remedial measure was framed and issued.

Reform Measures

Under the Decree of January 16, 1915, villages which could prove that land belonging to them in common had been alienated and had become private property were to have these lands restored. Only four specifically named types of villages with political status were eligible, many villages of other types or known by different names were excluded as were the settlements of resident hacienda laborers which formed the bulk of the rural population.

If a village was unable to offer conclusive proof of despoliation, it was entitled to request an outright grant of land (*dotación*) - this to be expropriated from territory immediately adjoining the petitioning community. The decree was recognized by the Constitution of 1917 and its principles were incorporated into and somewhat amplified by Article 27 which is the legal basis for all subsequent agrarian legislation. The article affirmed that villages were entitled to petition for outright grants solely on the basis of need, regardless of whether any question of restitution was involved. In this connection, private property situated merely in the neighborhood or vicinity of the village - not only that contiguous to it - was made subject to expropriation. "It is the clear intention of Article 27 to give villages any and all classes of 'waters, woods and lands' which they may need. These waters, woods and lands, title to which is vested (temporarily, at any rate) in the village as a whole and which are enjoyed by the members of the village in common are the ejidos."¹

¹Simpson, Eyler N. *The Ejido - Mexico's Way Out*. Chapel Hill, 1937; p. 74, and quotation from author's Preface: "The core and heart of Mexico's agrarian reform is the *ejido*. The word EJIDO is derived from the Latin *exire*, *exitum* - 'to go out,' 'the way out.' As originally used in Spain the term was applied to uncultivated lands held collectively and located on the outskirts (on the way out) of agrarian communities. In Mexico at the present time the word is used to refer to all types of lands which have been restored or granted to agricultural communities under the land reform initiated in 1915. By extension the word is also used to designate the communities possessing such lands."

Two further phases of the program of agrarian reform were introduced by Article 27; namely, the gradual breaking up of the large landed estates into small holdings and interior colonization.

The administrative machinery through which distribution of ejidos was to be effected consisted of a National Agrarian Board of eight members presided over by the Minister of Agriculture, an auxiliary State Agrarian Commission in each state of the Republic, and as many local village committees (special executive committees) as might be necessary. Petitions from a village were submitted first to the governor of the state. After investigation by the State Agrarian Commission and approval by the governor, the village was given possession of the land, but such possession was considered provisional until the case had been reviewed by the National Board and final title granted by the President of the Republic. This period of review and examination was often a lengthy and unsettled one, especially because landowners who considered they had been injured by any act of expropriation or transfer of land had recourse to the courts. In addition, politics and bureaucracy slowed down action to such an extent that as late as 1933 the National Agrarian Board admitted it took as long as 6 years for proceedings to become definitive.

From 1917 to 1934 over 100 acts, decrees, and ordinances were enacted by the Federal Government to regulate and expedite the redistribution of land but "In general, this entire period of agrarian legislation may be characterized as a laborious process of trial and error in which, from the standpoint of straightforward doctrine, low ebbs were reached."²

In June 1933 a study of Mexican economic and social structure was initiated and under the resulting Six-Year Social and Economic Plan (1933-1939) the outlines of the agrarian program were rephrased. A decree of January 15, 1934, replaced the National Agrarian Board with an autonomous Agrarian Department directly responsible to the President of the Republic and charged it with the introduction and application of more efficient methods of land distribution. State Agrarian Commissions became Agrarian Mixed Commissions of five members. One of these had to be an ejido member; the hope being that these changes would eliminate the pressure exerted by private interests against the granting of ejidos and would insure the peasants a voice in their future.

The first Agrarian Code of March 22, 1934, superseded all previous legislation pertaining to matters of agrarian reform and

²Munguía Enrique *The Agrarian Problem in Mexico*. Int. Lab. Rev. 36 (2): 207. August 1937.

remained in force until 1940. It retained the procedures of restitution and dotation described above and in addition stated that petitions for extension of ejidos might be made whenever 20 family heads were without land and it could be proved that efficient use had been made of all village lands. In referring to the villages the Code used the term "centers of population" and not their political designation so that any and all types of rural communities were brought under its scope. In addition, "permanent resident laborers on agricultural properties," that is, peons living on large landed estates, were made eligible for participation. As individuals they could apply for a parcel in an ejidal grant or an extension thereof being made to a village or submit a request for a vacant parcel in an established ejido - all within certain specified distances from the property on which they were employed. As a group they could ask for land under the provisions of the Code governing the establishment of new centers of population. Under these provisions new agricultural communities could be set up when there was insufficient land subject to expropriation in the territory surrounding the petitioning unit or the land available was not suitable for agricultural use. Failing this, the peons were entitled to receive a parcel of land on one of the Government colonization or irrigation projects.

A new Agrarian Code (effective November 13, 1940) introduced modifications in the technique and procedure of land distribution and organization of ejidos which time and experience had shown to be expedient. No fundamental changes in principle or theory occurred, however, and petitioners may continue to obtain land by restitution, outright grant (*dotación*), increase in the area of a previous grant or by the creation of new centers of population.

Private property within a radius of 7 kilometers (4.34 miles) from the soliciting community is subject to expropriation above the minimum exempted areas of 100 hectares of irrigated land and 200 of seasonal, or their equivalents. For each hectare of irrigated land there may be substituted 2 hectares of seasonal, 4 of summer pasture of good quality, and 8 of woodland or summer pasture in arid regions.

Certain holdings are exempted because of the nature of their use. Cotton plantations are exempted up to 150 hectares if they are irrigated by river inundations or pumping systems. Banana, coffee, cacao, and fruit plantations are exempted up to 300 hectares. In the case of henequen plantations, 150 hectares actually being worked and an additional 150 uncultivated hectares to allow for expansion may be excepted if the general well-being of the district makes such treatment advisable.

Owners of land who will not be affected by the agrarian reform receive an "exemption" certificate (certificado de inafectibilidad).

The Ejido

Ejidatarios, that is, members of an ejido or agricultural community holding lands made available to it through the agrarian reform, must be native Mexicans, male and at least 18 years of age if unmarried; women, whether single or widowed, may become eligible, provided they are heads of families. None may possess land equal to or greater than the normal unit allotted in the ejido, nor on the whole more than 2,500 pesos of capital invested in industry and trade, or more than 5,000 pesos invested in agriculture.

Over and above individual allotments, each ejidal grant must include land intended for communal use such as pastures, woodland, a lot for the schoolhouse, experimental and sports grounds, etc. Each family head must be given at least 4 hectares of irrigated or 8 of seasonal arable land. If the designated area is insufficient to meet these requirements, the ejido is automatically extended. If not enough suitable agricultural land is available, a new center of population may be formed in any part of the Republic - preferably in sparsely settled sections and on public land - provided there are 20 or more eligibles who are willing as well as able to migrate to and establish themselves in the new locality.

Ownership of lands and water in an ejido is regarded as vested not in the individual member but in the body of its inhabitants, that is the ejidal community. Land is considered inalienable and may neither be disposed of nor mortgaged. No individual may sell or rent the plot of ground assigned to him. Neither may he employ a substitute to perform the work incumbent upon him as a member of the community. He loses his rights if he leaves his share in the ejido uncultivated for 2 years or abandons it. At death, his rights pass by inheritance to his successor as head of the family whether it be his wife, a child, or any other person living under his roof and dependent upon him for support. Under no condition may his rights be transmitted to any one outside the ejido. The ejidatario must help in working any common plots of arable land and in keeping up pastures, woods, sports grounds, etc., and make his contribution towards taxes on the ejido.

Constitutionally the ejido is a self-governing community which chooses its own officials. Its principal authority is a

Commissariat of three members elected every 2 years. This body performs administrative and executive functions and represents the community in judicial matters. There is also a vigilance committee, consisting of three members serving for 2 years, to guard against any possible abuses by the commissars and to report financial or other irregularities.

The ejidos are supervised and directed in economic and social matters by the Federal Ministry of Agriculture and the National Bank of Ejidal Credit (see p. 25), whose agents are really the organizers and directors of the agricultural economy in the ejidal system. These experts study each ejido with a view to arriving at a program which will enable the community to adopt and develop more efficient and up-to-date methods of operation and exploitation. A plan is drawn up and submitted to the assembled peasants and once approved becomes the determining pattern for all activities. If the ejidatorios have reached a sufficient stage of organization and progress, they may develop their own activity program which, in such a case, must be approved by the Government agents before being put into execution. The Ministry of Agriculture and the Ejidal Bank act as technical advisers in such matters as the choice of crops to be grown, methods of tilling, increasing yields, mechanization, and the setting up of cooperative societies for production and marketing. In addition, they also proffer aid in organizing such public services as education, hygiene, electrification, etc.

The great majority of ejidos are worked by the method of allotting an individual parcel of ground to each family head and leaving him to operate it for whatever profit can be eked out. Very often, however, the individual allotment has proven insufficient to maintain a rural family since Mexico has a very low productivity per unit of cultivated area, above all in cereals, where as yet the state has not succeeded in inculcating modern methods. In view of these circumstances, experiments have been made in which the ejido is farmed in its entirety by organized collective labor, the most outstanding example being that of the La Laguna Region lying in the States of Coahuila and Durango. In fact, this region as well as the Los Mochis and the Yaqui Valley are specifically reserved for collective operation and development by a 1941 order of President Avila Camacho.

The procedure has been to train and specialize ejido members in various agricultural skills, organizing them as a credit association to secure loans from the Ejidal Bank for the purchase of selected seed, machinery, construction of

storage facilities, means of transportation, etc., all of which are used in common. Profits are shared in proportion to the amount of work contributed but a weekly advance on account is made for current living expenses. The Ejidal Bank has been primarily instrumental in the execution of these collectivization experiments.

Although there is no difference in principle between the individualized ejido and the collectivized ejido, there appears to be one of efficiency. Generally speaking, wherever the type of farming is such as to call for a considerable outlay of capital, or where the production is destined for exports, thus requiring strict classification and unvarying quality, collective labor under a centralized management shows up to better advantage.

"It must be admitted that both the volume and the quality of the production fell away when the agrarian reforms were first instituted, but that fact constitutes no sort of argument against the possibilities that the new system holds of converting Mexican agriculture into a modernized and prosperous agriculture, and still less can it be cited as an argument against the justice of that revolutionary proceeding. All changes in established order involve disturbances. Every year that passes provides proof that the upheavals caused in Mexico by the agrarian reforms, in the domain of production, are of a transitory nature, for they are passing away, slowly but surely. The falling-off in production is more apparent than real; it reaches its maximum in the cultivation of cereals and is readily explained. Previous to the reforms, the big landowners produced in order to supply the urban markets, or for exportation, doling out a minimum of grain to the peasants (peons) for their sustenance. Today, on the ejido, production is carried on with the primary object of insuring that the laborers who work the land shall enjoy all possible abundance. Only the excess is transported by rail or road, so that it is natural to find that while the total production of any given cereal may remain undiminished, there may be reduced deliveries to the towns and seaports.

"And one great object has been attained - the alleviation of the hunger that for centuries ruled the Mexican countryside."³

Nevertheless, the social gains thus made are not the ultimate objectives of the ejidal system with respect to productivity. In recent years, it has come to be clearly recognized that the holders of over 28 million hectares of land cannot continue to

³Vargas MacDonald, Antonio. *Agrarian Reform in Mexico*. Annals of Collective Economy 15 (1); 139-140. January - April 1939.

produce exclusively for their own increased consumption, but will eventually have to help stock the national markets and contribute their proportionate share to agricultural exports.

TABLE 3. - *Principal characteristics of ejidos*
1930, 1935, and 1940

Item	Unit	1930	1935	1940
Ejidos.....	number	4,189	7,049	14,526
Ejidatarios.....	number	536,883	898,413	21,834,268
Ejidal families...	number	(1)	513,208	882,579
Total area.....	hectares	8,344,651	11,827,707	227,991,624
Arable area.....	hectares	1,940,468	3,115,456	7,034,472
Cultivated area...	hectares	1,093,830	1,998,578	4,272,299
Fallow area.....	hectares	1851,725	612,167	1,587,807
Not cultivated for 2 or more years.....	hectares		518,174	1,174,366

¹ Item not shown in 1930 census figures.

² Includes grants not yet definitive.

Source: *Primer Censo Agrícola-Ganadero 1930. Resumen General.* Table 1, p. 34, Table 5, p. 58; *Anuario Estadístico de los Estados Unidos Mexicanos 1940.* Table 295, pp. 499-500.

It has been estimated that in 1934, when the first Agrarian Code was promulgated, approximately 2,320,000 individuals were made eligible to claim ejidal lands.⁴ As may be seen from table 3, the number of ejidatarios possessing provisional as well as definitive grants increased from 536,883 in 1930 to 1,834,268 in 1940; in 1935, 898,413 or 24.7 percent of the agricultural population and 17.3 percent of the total gainfully employed had been reached. In 1940, ejidatarios comprised 51 percent of the population engaged in agriculture.

The rate of land distribution was stepped up markedly after 1934 and, as is indicated in table 4, reached its peak in 1937. During the period 1915-1934 there were distributed 8,297,022 hectares (definitive grants) while in the 3-year period 1935-1937, 11,643,865 hectares were made over to the peasants and peons. Distribution from 1935-1941 amounted to 19,477,957 hectares.

Preliminary 1940 census data⁵ show that land in ejidos accounted for 21 percent of all farm land, 48 percent of arable land, and 60 percent of that under cultivation. Ejidal agricultural production equaled 61 percent of the value of total farm products and 20 percent of that of plantation production.

⁴ Munguía, Enrique. *op. cit.*, p. 227.

⁵ Taken from González Gallardo, Alfonso. *La orientación de la agricultura nacional.* Speech given October 21, 1942, Mexico City (Mimeographed).

Livestock owned by the ejidos was shown to be 28 percent of the value of the total livestock existing in Mexico.

TABLE 4. - *Definitive ejidal grants, 1916-1942*

Year	Individuals receiving grants	Area occupied by definitive grants
	<i>Number</i>	<i>Hectares</i>
1916.....	182	1,246
1917.....	2,615	5,635
1918.....	15,071	68,309
1919.....	14,948	33,276
1920.....	15,566	64,333
1921.....	27,659	178,815
1922.....	16,184	140,267
1923.....	31,142	284,871
1924.....	64,335	623,095
1925.....	79,606	787,014
1926.....	80,625	816,474
1927.....	84,116	991,526
1928.....	63,260	638,864
1929.....	108,846	1,084,370
1930.....	67,427	744,090
1931.....	45,652	610,304
1932.....	21,217	348,400
1933.....	16,126	195,939
1934.....	51,481	680,194
1935.....	170,134	2,668,261
1936.....	242,664	3,656,006
1937.....	236,424	5,319,598
1938.....	157,842	3,334,331
1939.....	78,074	1,732,608
1940.....	74,302	1,867,724
1941.....	32,902	899,429
1942(January - July).....	12,137	476,458
Total.....	1,810,537	28,251,437

Source: *Anuario Estadístico de los Estados Unidos Mexicanos 1940*. Tables 316-317, pp. 522-523; 1941 and 1942 figures are unpublished data furnished by the Agrarian Department.

AVAILABILITY OF CREDIT BEFORE 1926

Before 1926, when the Federal Government laid the foundations of the present agricultural credit system, the great bulk of farm operators struggled along with very little chance of their credit requirements being taken care of in a satisfactory manner.

The various private and semiofficial lending agencies which were organized between 1864 and 1926 either failed to accomplish their ends or limited lending definitely to the owners of large agricultural enterprises, the latifundistas, who were the most powerful agricultural and political element.

Smaller farmers and tenants were often reduced to having recourse only to noninstitutional credit, important among which were the big trading companies which advanced funds and then bought the crop. Such credit was most unsatisfactory since the

companies not only charged exceedingly high rates of interest but paid extremely low prices for the crops, sometimes less than 50 percent of the selling value at harvesting time.

Private individuals did some lending, as a rule at usurious rates. Every section of the country had a trader or money lender who was willing to make loans repayable at harvest time. In addition many of the latifundistas engaged in advancing credit. Usually a real estate mortgage was required and upon default the land passed from the possession of the small owner. Such conditions were not conducive to the growth of this latter stratum of the population but indeed served rather to add more land to already huge estates.

After several private banks failed successively to provide competent credit to agriculture, official attention (Federal as well as state) was devoted to the problem but did not result in a scheme designed to help bona fide farmers for several decades.

Federal institutions such as the Loan-Fund for Irrigation Works and Agricultural Development (Caja de Préstamos para Obras de Irrigacion y Fomento de la Agricultura, S. A.) and the Monetary Commission (Comisión Monetaria) were stop gaps which proved just as unsuccessful as the private agencies.

In 1908 the Federal Government authorized the National Bank of Mexico, the Bank of London and Mexico, and the Central Mexican Bank of Commerce and Industry to form the *Loan-Fund for Irrigation Works and Agricultural Development* to operate under Government supervision. Its activities were confined in great part to lending to other banks, especially against frozen accounts. The rest of its capital was dissipated in loans to individuals who were important socially and politically while agriculture as such was ignored. At the end of 1915, 55,000 pesos had been loaned out in only 109 mortgage loans. Operations continued in this vein until 1926 when its liquidation was ordered. Bonds in the amount of 81,750,000 pesos issued by the Loan-Fund were incorporated into Mexico's Public Debt.

The *Monetary Commission* established by the Revolutionary Government in 1916 to provide credit for developing the natural resources of the country had an equally unfortunate history as regards lending to large landholders, irrespective of whether for agricultural or other purposes, and was also liquidated with substantial losses.

In the early twenties an attempt was made by the Government of the State of Tabasco to create a network of *local credit agencies for farmers* (cajas rurales). This initiative remained fruitless, for the Tabasco example was ignored elsewhere in the nation, and the cajas themselves failed soon after their establishment.

In June 1922 a *Division of Agricultural Cooperation* had been created within the Ministry of Agriculture to initiate education of the ejidatarios to start them along the way to economic betterment. It organized a number of cooperatives, provided them with implements and machinery, and even extended some cash credits. To avoid duplication of effort, this division was merged in June 1923 with the National Agrarian Commission's *Department of Ejido Development* which had been functioning since the previous October.⁶ This Department continued to organize cooperatives and to extend credit in a sporadic and irregular fashion until 1926 when the ejidal banks took over.

It was not only the conspicuous failure of private and official action in creating adequate credit facilities for the farmer which suggested the more visionary solutions embodied in the basic Federal legislation of 1926. More important was the effect of the agrarian reform initiated after the Revolution of 1910 which gave rise to a new class of land owners in need of credit to secure their newly acquired independence.

⁶"For almost 8 years after the promulgation of the basic agrarian decree of January 1915 no especial attention was given to the matter of ejido social and political organization..... It was not until October 11, 1922, that the (National Agrarian) Commission in its Circular No. 51 attempted to set forth a really comprehensive plan for the ordering of the political, social, and economic life of the ejidos." (Simpson, Eyler N., op. cit., p. 318.)

Chapter III

Emergence of a Government-Sponsored Agricultural Credit System

LEGISLATION enacted in 1926 was the first attempt in Mexico to establish a system of channeling credit to all farmers throughout the country. The National Bank of Agricultural Credit was created in this year as well as a short-lived system of regional banks designed to deal only with ejidatarios. The ejidal banks were abolished by the law of 1931 which retained but remodeled the system radiating from the National Bank of Agricultural Credit. Reforms were introduced by another law in 1934, and in 1935 an amending act created a new institution - the National Bank of Ejidal Credit - to take over all operations with and functions pertaining to ejidos and ejidatarios, leaving the National Bank of Agricultural Credit to serve small- and medium-sized farmers.⁷ A further amendment was enacted in 1939.

AGRICULTURAL CREDIT LAW OF FEBRUARY 10, 1926

The structural elements of the agricultural credit system created by this law were the National Bank of Agricultural Credit (*Banco Nacional de Crédito Agrícola*), the central source of funds, and regional and local agricultural credit societies, through which the bank was to make loans against their collective responsibility, the societies, in turn, lending to their individual members. The Bank at the same time, however, could lend to private individuals, that is, to farmers not belonging to a society or not members of an ejido.

Regional societies were to be made up of large scale farmers or persons who, although not farmers in the strict sense of the word, owned or operated establishments closely allied with the agricultural interests of the particular geographic or economic region (waterworks, electrical plants, transportation facilities, etc.). Such a society could take either a corporate or cooperative form of organization, but each had to have a minimum subscribed capital of 500,000 pesos. In addition, it could issue stock in whatever amount prescribed in the bylaws or determined by the general assembly.

⁷The term *ejidatario* refers only to those qualifying for and receiving land under the agrarian reform. In Mexican terminology *small- and medium-sized farmers* are those who possess sufficient private means to render them ineligible for an ejidal grant.

Local societies could be formed by either ejidatarios or small farmers in one town or specific locality constituting a single economic unit, in which the people were closely associated and well acquainted with each other. Such a setting is a prerequisite to successful organization of any group without initial capital but with unlimited liability, as was to be the case with local societies. Ten local societies operating in a region could form a *Union of Local Societies* as a cooperative of limited liability with the object of aiding its members in auxiliary enterprises (cooperative purchasing, producing, or marketing) and of acting as intermediaries between the societies and the Agricultural Bank.

The capital of the *National Bank of Agricultural Credit* was made up of three series of stock - "A" subscribed by the Federal Government, "B" to be subscribed by local governments, and "C" to be subscribed by regional credit societies and private persons. Although the law authorized a stock issue of 50 million pesos, 20 million had to be subscribed before operations could begin. Government control was assured by the law in that more members of the administrative council were appointed by series "A" than by either of the other two types of stockholders.

The capital originally subscribed amounted to 20,311,400 pesos, of which only 12,311,400 was paid in cash, the remainder being in the form of real estate, equipment, and credits to the value of 8 million pesos from the Loan-Fund for Irrigation Works and Agricultural Development which was at that time in the process of liquidation. As may be seen from table 5, the Federal Government subscribed 88.62 percent of the total. Subscriptions by state governments were insignificant, as were those from private sources, with the exception of those of the Bank of Mexico and the Bank of London and Mexico.

Logically the state governments could be expected to subscribe to capital in such an institution, as one of their duties would be to see that small farmers and the ejidatarios benefiting from the agrarian reform in progress since 1915 would be able to obtain the credit and capital necessary for them to carry on. However, subscriptions were negligible, chiefly for the two reasons that the states apparently lacked funds for such investments and that no special inducement was offered them. Possibly, if the Bank had been obliged to lend in each state in proportion to the amount of stock its Government had subscribed, active support might have been more substantial. Neither was there any great interest in subscribing to series "C" stock. Even provision for payment of a dividend of 6 percent out of the bank's profit failed to entice much private capital, owing greatly

perhaps to the fear not only that there might not be any profits from which to draw but also that the original investment might be lost. State controlled management, with no provision for eventual transfer to the borrower, did not enhance the desirability of the stock as an investment, for private capital is apt to look upon Government management in such cases as carrying with it a connotation of bureaucracy, disorder, and favoritism.

TABLE 5. - *Initial stock subscriptions of the National Bank of Agricultural Credit, 1926*

Series	Subscriber	Amount
		Pesos
"A".....	Federal Government.....	18,000,000
"B".....	Tamaulipas State Government.....	25,000
	Yucatán State Government.....	25,000
	Guanajuato State Government.....	5,000
"A" and "B".....	Total.....	18,055,000
"C".....	Bank of Mexico.....	1,995,000
	Bank of London and Mexico.....	195,000
	Private individuals	66,400
"C".....	Total.....	2,256,400
Total.....	.....	20,311,400

Source: Torres Vivanco, Juan. *El desenvolvimiento del crédito rural en México*. Mexico City, 1937; p. 33.

It is evident from the discussion above that the Bank was hampered from the very beginning by lack of sufficient capital to lend as extensively as was the original intention. In addition, the cost of its organizational, administrative, and supervisory work for the entire system increased the drain on the Bank's meagre funds.

One of the sharpest criticisms appearing in most of the contemporary literature dealing with the National Bank of Agricultural Credit was that medium- and small-sized farmers, as well as ejidatarios, got very little benefit from it. After operations were begun, most of the loans were made to latifundistas, which resulted in a large part of its funds being frozen. Moreover, large sums were granted to influential politicians and money was thus diverged from the economic and social functions which it was meant to fulfill. In this respect, apparently many of the mistakes made by the Loan-Fund for Irrigation Works and Agricultural Development were repeated. And worst of all - this situation constituted a justification of the fears of private capital with respect to investment in business managed by the Government.

LAW OF EJIDAL AGRICULTURAL BANKS, MARCH 16, 1926

Almost simultaneously with the creation of the National Bank of Agricultural Credit in 1926, an attempt was made to set up a system apart from that affiliated with the Bank but parallel to it, to deal directly and exclusively with the holders of land in the ejidos created under the agrarian reform. By 1926 the number of ejidatarios in Mexico had increased to 347,933 and they possessed land covering an area of 3,033,344 hectares. That particular and specialized credit facilities had to be provided for this steadily increasing portion of the rural population was an accepted fact and, as shown above, some efforts to meet the situation had been made prior to this legislation.

The law of March 16, 1926, authorized the Secretary of Agriculture to establish *communal* or *ejidal agricultural banks* in the states of Mexico designated by the Federal Government with the purpose of extending credit to ejidatarios organized in cooperative societies.

The initial capital of each ejidal bank was set at 200,000 pesos. The Federal Government was to subscribe this amount by purchasing shares for resale later to the local agricultural cooperatives through which all credit transactions were to take place. The cooperatives, in turn, were to use at least half of their profits to purchase shares in the Ejidal bank of which they were a member; after 1 year of affiliation they were to allot for this purpose $1/2$ of 1 percent of the total loans received from the bank.

In the years that followed, nine banks were founded (four in 1926, one in 1927, and four in 1928). One of them - that founded in the State of Jalisco - merits particular attention. When it became apparent that Government subscriptions were falling short (only 5,798 pesos were finally contributed), the cooperatives to be served took it upon themselves to buy up the necessary stock in the institution. This is an interesting example of the progress possible when facilities and institutions are organized on a level - intellectual, administrative, and financial - with which the peasants can cope.

By 1930, it was fairly clear that the banks were not a financial success, chiefly because of failure on the part of the Federal Government to supply sufficient funds. As may be seen from table 6, in no case was as much as 200,000 pesos supplied to any one bank, and the total capital of all banks subscribed by the Federal Government, the societies, and one state government was only 1,441,552. Moreover, according to an

outstanding student of agricultural credit problems in Mexico,⁸ another factor of perhaps even greater importance was faulty administration. For example, loans were made by the banks without even being recorded. On October 31, 1936, as much as 176,033 pesos were found to have been loaned without any documentation whatsoever, and of this amount only 72,616 was deemed recoverable. Other loans outstanding amounted to 904,064 pesos, 356,005 of which was considered recoverable. It has been calculated⁹ that, in the long run, of the total capital subscribed (1,441,552), about 1,100,700 pesos, or a little over 76 percent, was to be considered as entirely lost.

TABLE 6. - *Total capital subscribed in the ejidal banks*

Banks	Date founded	Subscriptions by Federal Government	Subscriptions by ejidal associations
		<i>Pesos</i>	<i>Pesos</i>
Chihuahua.....	1928	50,000	65,930
Durango.....	1926	168,312	90,990
Guanajuato.....	1926	177,089	80,460
Hidalgo.....	1926	174,398	82,190
Jalisco.....	1927	5,798	95,840
Mexico.....	1928	50,000	33,730
Michoacán.....	1926	166,103	40,720
Morelos.....	1928	.....	25,467
Puebla.....	1928	50,000	6,220
		841,700	521,547
Total capital subscribed:			
Federal Government.....			841,700
Government of State of Puebla.....			78,305
Ejidal societies.....			521,547
			1,441,552

Source: Torres Vivanco, Juan. *El desenvolvimiento del crédito rural en México*. Mexico City, 1937; pp. 51-52.

The reader is assured by this student, however, that the ejidatarios played their part well. In fact, more than one-third of the capital of the nine banks was subscribed by ejidatarios, and default in repayment of loans was seldom wilful but due more likely to the fact that borrowers were erroneously advised not to make payments when conditions were stringent or to lack of proper judgment on the part of supervisory officers as to whether repayment ability and other conditions warranted a particular loan.

⁸Torres Vivanco, Juan. *El desenvolvimiento del crédito rural en México*. Mexico City, 1937; pp. 57-58.

⁹Torres, Vivanco, op. cit., pp. 54-56.

Liquidation of both the banks and the cooperatives was ordered by a decree of February 26, 1932, and was undertaken by a Liquidating Committee composed of representatives of the Department of Agriculture, Department of Treasury, and the National Bank of Agricultural Credit. In December of 1933 the latter was entrusted with full responsibility for closing out the affairs of the banks.

TABLE 7. - *Number of ejidal cooperative societies, membership, and value of ejidal bank stock acquired by them August 1931*

Banks ¹	Cooperative societies	Society members	Value of bank stock acquired by societies
	Number	Number	Pesos
Chihuahua.....	39	2,215	55,930
Durango.....	85	5,261	77,560
Guanajuato.....	133	7,997	80,010
Hidalgo.....	103	5,640	82,150
Jalisco.....	55	2,098	99,510
Mexico.....	76	3,914	33,530
Michoacan.....	97	6,850	34,290
Puebla.....	93	3,765	6,100
Total.....	681	37,740	469,080

¹Bank of Morelos not included since operations were negligible.

Source: Gonz  les Aparicio, Enrique. *El problema agrario y el cr  dito rural*. Mexico City, 1937; p. 34.

AGRICULTURAL CREDIT LAW FOR EJIDATARIOS AND SMALL FARMERS, JANUARY 2, 1931

Failure of the Agricultural Bank and its auxiliary institutions to attend the needs of the small farmer and the ejidatarios as well as of the ejidal banks to accomplish their aims resulted in 1931 in the preparation and enactment of a second law on agricultural credit.¹⁰

The machinery set up consisted of the National Bank of Agricultural Credit, regional banks organized by and associated with the National Bank, agricultural cooperative societies and warehouses (almacenes de dep  sito), which could be established as subsidiaries to any one of the other three institutions.

The *National Bank of Agricultural Credit* was essentially the same as that authorized under the law of 1926; a nominal capital of 50 million pesos was to be represented again by three series,

¹⁰This law replaced that of February 10, 1926, but did not formally repeal that of March 16, 1926, authorizing the ejidal banks. It did so only in effect by declaring null and void the decree of August 30, 1928, which had created the Department of Agricultural Organization and Ejido Credit to administer the ejidal bank law.

called "A," "B," and "C" (p. 18) - the latter to be subscribed by the regional banks, cooperative societies, and private individuals. However, an attempt was made to insure sufficient liquid resources for efficient operation. The law required that the Federal Government buy up the assets of the Loan-Fund for Irrigation Works and Agricultural Development which had constituted quite an item of "frozen" funds in the capital structure of the original bank (p. 18). In addition, it was expected that certain funds would be available from the ejidal banks and the "former" National Bank of Agricultural Credit. To further augment the Bank's capital, the Federal Government proposed to appropriate 6,000,000 pesos annually and contribute another one-half million each year out of the income derived from various irrigation projects.

The functions of the *regional banks* were to aid in the organization of agricultural cooperatives within their territory and the distribution of credit to them to create commercial or industrial establishments which would facilitate the use of sale of the cooperatives' products, and, in general, to cooperate with the National Bank in the development and execution of plans for agricultural education and advancement. Lending and other banking operations were to be carried on with the cooperatives within the particular zone of jurisdiction. The minimum authorized capital of each bank was 300,000 pesos to be made up of two series - "Y" to be subscribed only by the National Bank of Agricultural Credit and "Z" by the member cooperatives. The banks in turn had to devote 5 percent of their total capital to purchasing "C" stock of the National Bank of Agricultural Credit. There existed the possibility of administrative control of the banks passing in to the hands of the farmers; according to the law the number of members on the administrative council that owners of each series of stock could nominate was to be in relation to the shares subscribed by them.

The objects and duties of the new *agricultural cooperative societies* did not differ from those of the predecessor local societies of agricultural credit except that great emphasis was placed upon the economic and social aspects of their duties. The societies were to be cooperative associations of joint and unlimited liability whose members were either ejidatarios (peasants granted land in accordance with the Agrarian Laws in force) or small farmers (those who habitually devoted all their time to the cultivation of their land, whether as owners, occupiers, colonists, lessees, or sharecroppers). The term "small farmers" still applied even if outside labor was used, provided this did not exceed five men in number and so long as the cultivated

area was kept within the limits of an unaffected holding as defined in the Agrarian Laws.

The law of 1926 had aimed at meeting all credit requirements for all classes of farmers and had failed; the law of 1931, therefore, left the granting of credit to individuals not organized in cooperatives, whether small farmers or wealthy landowners, to the private banking institutions of the country. Nevertheless, despite the principles laid down so clearly, many of the loans made were in conflict with the letter as well as the spirit of the law. Furthermore, even though intentions were of the best, the Federal Government failed to make good any of its promises and the Bank was again faced with the struggle of obtaining sufficient capital to carry on. Finally, due recognition must be accorded again the extremely delicate task with which the Bank was saddled - the anomaly of being charged with certain organizational, educational, and social services, but at the same time being expected to show a profit on a purely business basis.

AGRICULTURAL CREDIT LAW OF JANUARY 24, 1934

An attempt to strike a happy medium between the provisions of the 1926 and 1931 legislation was made in the law of 1934 which permitted the Bank to lend to individuals not organized in cooperatives (provided they were small- or medium-sized farmers) with the expectation of returns from some lending on business principles.

The capital structure of the National Bank of Agricultural Credit remained as it was except that the limit on the nominal capital was removed. The Government again pledged itself to buy up, this time within 4 years, the assets and properties originally acquired from the liquidated Loan-Fund for Irrigation Works and Agricultural Development. In addition, a provision of the Six-Year Plan (p. 8) prescribed that the Federal Government, during the period of the plan, furnish 50 million pesos, 20 million of which was to be advanced in that same year (1934).

The law retained the regional banks, reestablished the *local societies of agricultural credit* as well as *unions of local societies* and established in addition *societies of collective agricultural interest*.

The first three elements deviated but slightly from the form they had assumed previously. Local societies could be organized by ejidatarios, small- or medium-sized farmers;¹¹ 7 such societies, instead of 10 were now necessary to form a union.

¹¹A medium-sized farmer differed from a small farmer only in that he could have 10 instead of 5 permanently salaried employees on his holding.

The new feature of the law was the creation of *societies of collective agricultural interest* which were organized with limited or supplementary liability. They were temporary in character, nonprofit in nature, and could not make loans to individual members. They were designed to effect certain large-scale operations which might be rather expensive but at the same time indispensable to the economic and social progress of the rural population; for example, the construction of silos, canals, railroads, factories for the manufacture of agricultural machinery or fertilizers, etc.; the electrification or mechanization of rural districts; drainage and reforestation projects; establishing nurseries, experimental fields for the production of improved seeds; construction of water and sanitation systems, and, in general, all those works promising most economic utilization of the soil resources or correcting the natural deficiencies of a particular region.

One of the chief motivations impelling credit legislation in Mexico was the desire as well as recognition of the necessity of getting funds to the ejidatarios whose peculiar requirements could be supplied only by some especially designed institution. Although the remodeling of 1934 took several steps in this direction, sufficient and far reaching results failed to materialize. Only 2 years later, the expediency of once more changing the law was put under consideration and in December 1935 an amending law created two distinct channels of agricultural credit - one reserved especially for those benefiting from the agrarian reform.

AMENDING LAW OF DECEMBER 2, 1935

This law did not radically alter the pattern set up in 1934, but served chiefly to separate credit granted ejidatarios from that granted to other types of farmers by creating the National Bank of Ejidal Credit (*Banco Nacional de Crédito Ejidal*) and local societies of ejidal credit. Operations with small and medium-sized farmers, either as individuals or members of a local society of agricultural credit, were confined to the National Bank of Agricultural Credit.

In establishing the *National Bank of Ejidal Credit*, the law indicated that, so far as possible, the credit granted by it should be used collectively. It abolished the regional banks and the unions of local societies (without any ever having been formed) thus eliminating all "middleman" institutions and leaving as the basis of the whole system the local societies of agricultural or ejidal credit which, according to the character

of their members, would belong to the system attached either to the National Agricultural Bank or the National Ejidal Bank. Societies of collective agricultural interest were retained; in fact, an amendment of December 29, 1939, restored the unions of local societies to the picture, allowing societies to band together to accomplish tasks beyond their individual scope.

FIGURE 2

SOURCES OF AGRICULTURAL CREDIT

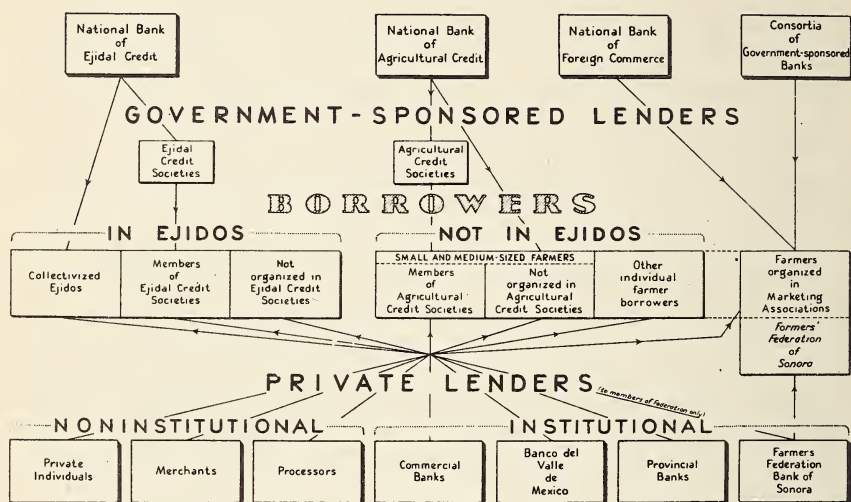


Figure 2 shows only the sources of credit with which farmers actually are, or may be, in direct contact. Financial relations of the various lenders among themselves and with the central bank (Banco de Mexico) are explained in the text. The government-sponsored lending agencies operate with significant amounts of private capital.

The Ejidal Bank was organized in every respect like the Agricultural Bank. Its nominal capital was set at 120 million pesos, of which 115 million was to be subscribed as series "A" by the Federal Government. Subscriptions to series "B" (state governments) and "C" (local societies of ejidal credit, societies of collective agricultural interest and private individuals) were limited to 2½ million each. Moreover, it was ruled that the Federal budget each year was to indicate the subsidy which the Government would contribute toward the cost of administration and distribution of ejidal credit. Such help was necessary when one considers the expense involved in the task ahead, namely that of organizing into self-governing associations many thousands of peasants with extremely small economic resources and practically no educational background (there being

a very small percentage of literacy) who were scattered over the entire country, often in localities which lacked all means of outside communication even postal service. Placing the burden of servicing such a clientele upon the resources of any single banking institution would have thrown it out of equilibrium and caused it to break down.

The *National Bank of Agricultural Credit* was given a somewhat larger sphere of activity and was entrusted with the colonization and administration of areas in which irrigation systems were being developed by the Federal Government. Actual construction of irrigation works is under the jurisdiction of the National Irrigation Commission but as soon as building is completed, the project is transferred to the National Bank of Agricultural Credit. It performs whatever administrative functions are necessary and finances the colonists until such time as the latter are deemed sufficiently well entrenched and competent to take over themselves.¹²

¹²In 1940 the value of the crops harvested in these districts amounted to 25,844,516 pesos. In August 1941 there were 10 such projects showing a harvested area of 128,039 hectares (*Boletín Mensual de la Dirección de Economía Rural*, No. 183, August 1941, p. 541).

Chapter IV

The Farm Credit Situation in Mexico Today

SOURCES OF CREDIT

MORTGAGE credit to agriculture on a long-term amortization basis is practically nonexistent in Mexico. Large landowners and those medium-sized farmers who do not hold certificates of exemption from the provisions of the agrarian reform are not considered good risks because their lands may be made subject to expropriation at any time. The less substantial middle class farmer possessing an exemption certificate either lacks sufficient income to service long-term loans carrying the high rates of interest which most lenders insist upon (and apparently obtain without difficulty from urban mortgage investment), or he has tied up already significant portions of his real estate assets as collateral for short- or medium-term operating advances. The limited inmobiliario or real estate loans made by the two Government-sponsored agricultural banks to farmers organized in credit cooperatives are explained on p. 45.

Credit to finance crops and short- or medium-term improvements is, of course, abundantly available from *private noninstitutional* sources if the borrower is willing to pay fantastically usurious rates. When a farmer obtains a loan against a standing crop, in addition to paying a high rate of interest he usually must arrange to sell the harvested crop to the lender at a price considerably lower than that prevailing in the current market. This difference in price is often equivalent to a 7 or 10 percent monthly interest charge; effective interest rates on loans made by private individuals, merchants, etc., range from 5 to 25 percent per month, e.g., from 60 to 300 percent per annum. Frequently, local merchants obtain funds from commercial banks at comparatively moderate rates of interest and then relend to farmers at much higher rates. To be sure, not all noninstitutional lenders interested in buying the crops of the borrower follow such abusive practices. For example, the cigarette manufacturing concerns appear to finance tobacco growers on entirely reasonable terms. Generally speaking, however, it may be said that although private noninstitutional credit is available, its use by farmers is likely to produce a debit result in the long run.

Private banking furnishes commercial and operating credit to farmers outside the scope or the financial means of the two Government-sponsored agricultural banks. This group is larger than commonly supposed since it includes all farmers not organized in credit cooperatives, that is, even the bulk of the ejidatarios.

But private banking prefers to limit transactions to commercial and short-term lending with mortgage security added - investments which represent the maximum in substantial return or safety. On such loans interest rates ranged in 1940 from 7 to 12 percent plus various charges which raise the cost of the loan to from 12 to 13 percent per annum.¹³

Only one instance is known in which farmers resorted to self-help as a remedy for this situation. In the States of Sonora and Sinaloa by virtue of local law all farmers belong to a state-wide Farmers' Federation which is principally a marketing cooperative. The Sonora group established its own *Farmers' Federation Bank* during the late twenties without financial assistance from other quarters. This bank is still operating today.

The need for more ample production credit to farmers outside the scope or the financial means of the two Government-sponsored agricultural banks was clearly recognized by the central bank of the nation, the *Bank of Mexico* (established in 1925). It has been instrumental in creating a number of so-called *provincial banks*. These may be classified as private banks not only because they are operating without assistance from the Federal or local Government but because most of their capital stems from private sources rather than from the Bank of Mexico. The latter serves in the main as promoter and by supplying a portion of the capital adds to the prestige of the new institution. Such banks have existed for several years in Jalisco, Sinaloa, and Zamora; more have come into operation recently or will in the near future.

With the assistance of other banking institutions the Bank of Mexico in 1942 established an agricultural credit institution known as the *Banco Agrícola del Valle de México*. It is intended not only to make direct loans to farmers in that area for the purchase of equipment and supplies but also to serve the provincial banks as a central bank for discounting their agricultural paper. Here again, by creating a new institution and supplying only part of its capital the Bank of Mexico has amplified the

¹³ A detailed survey of interest rates past and present as well as of the problems bearing on the rate policy of the National Bank of Agricultural Credit is contained in Fernández y Fernández, Ramón, *Los intereses del crédito agrícola*, 95 pp. Mexico City, 1940, (processed).

employment of private capital on behalf of agriculture and very likely on terms favorable to farmer borrowers.

The volume of credit granted by private banks has been and still is insufficient, although in 1940 it appears to have been slightly more than twice the amount lent in that year by the two Government-sponsored farm credit institutions.

In accordance with the spirit of the agrarian reform, legislation concerning the *Government-sponsored lending agencies* has tended toward a cooperative form of organizational set-up. This was true even of the 1926 law although we have seen that its purpose was defeated when many large loans were made to comparatively few individuals. From 1931 on, the basic cooperative structure has been strengthened so that now cooperatively organized credit associations constitute the chief clientele of these agencies. While the *National Bank of Ejidal Credit* does not lend to ejidatarios unless they are organized in credit cooperatives, the *National Bank of Agricultural Credit* is authorized to deal with small- and medium-sized farmers regardless of organizational status. However, in practice the last mentioned bank does only an insignificant volume of business with farmers outside of credit cooperatives.

Originally, the loan capital of both banks was practically synonymous with subscribed capital. Later they were authorized to issue bonds or debentures but did not find it expedient to do so. In view of the capital market situation and the weak financial position of the banks such issues would have called for very high coupon rates to attract investors and thereby would have resulted in too heavy an interest burden to be carried by their borrowers. On the other hand, issues at rates low enough to be successfully borne by the borrowers would have resulted in quotations considerably under par.

In order to obtain funds for short-term lending, both banks borrow occasionally from the *Bank of Mexico* or from private lenders. The latter, usually private banks and commercial firms, charge around 6.5 percent for these loans.

Since both banks had to refrain from increasing their loan capital by issuing bonds or debentures, various other policies toward this end were developed. Despite some improvement resulting from these policies, the loanable funds of both banks are still woefully inadequate. Therefore, in the realm of the *Ejidal Bank* one finds not only that many ejidatarios borrow from private lenders instead of forming credit associations to work with the Bank, but even that some of the ejidatario associations

depend upon private credit, and this with the acquiescence of the Department of Ejidal Organization of the Ministry of Agriculture.¹⁴

In addition, substantial amounts of private capital are being made available to agriculture in the following way: The National Bank of Agricultural Credit rediscounts with the Bank of Mexico acceptances obtained from the private lender. Maturity of the note is calculated to coincide with the sale of the crop and the Agricultural Bank commits itself to depositing the full amount of the note with the creditor 24 hours before the date on which the Bank of Mexico will present it for payment. The National Bank of Ejidal Credit strangely enough did not enjoy the privilege of rediscounting with the central bank until July 24, 1941. Therefore, it was the private lender who rediscounted the paper offered by the Ejidal Bank and any interest advantage from the transaction accrued to the former. With the object of opening up a more direct and satisfactory rediscount channel, on the date mentioned the Ejidal Bank subscribed 2 million pesos worth of stock in the Bank of Mexico. Although very little practical use has been made so far of this facility, being associated with the Bank of Mexico has strengthened the credit standing of the Ejidal Bank to such an extent that private sources of credit to the Ejidal Bank lowered their interest charges from an average of 8 percent to 6.5.

Further indirect ways of increasing the volume of credit to their clientele are followed by both banks. They frequently

¹⁴Rosado de la Espada, Diego, *El crédito agrícola en México*, Mexico Agrario 4 (1): 15. January-March 1942, presents the following example: In 1940, with a subscribed capital of 103 million pesos plus private investments of approximately 18 million pesos at its disposal, the Ejidal Bank made loans to only 239,407 ejidatarios. Calculating roughly then, a loan capital of 900 million pesos would have been necessary to meet the credit requirements of the 1.8 million ejidatarios to be found in Mexico during that year. However, this example does not give due recognition to the fact that the amount of 121 million pesos is not a revolving fund lent and recovered every year. Part of it is frozen either in the form of loans having durations of more than 1 year or in loans entirely uncollectible for the time being. Over the period from 1936 to 1941, the Ejidal Bank loaned 373,770,000 pesos and recovered 218,743,000 or 58.5 percent. In other words, the average loan size (121 million pesos - 239,407 ejidatarios - 505.42 pesos) arrived at by Rosado de la Espada is much too high. The number of ejidatarios to whom loans were made in 1940 related to the amount actually lent in that year (65,577,000 pesos) results in a loan average of 274 pesos, and 493 million pesos would be required to satisfy 1.8 million ejidatarios on the same scale. Yet, it should not be overlooked that the 1940 average loan size may be small in itself because the funds of the bank are inadequate. If what the borrowers should obtain were considered rather than what they have been able to obtain, the total amount required, no doubt, would greatly exceed the sum of 493 million pesos. No matter which approach is used the inadequacy of Ejidal Bank funds is fully demonstrated.

permit a private lender to make direct cash loans to their own borrowers and guarantee the loans by means of a special promissory note called *aval bancario*. In other cases where the financial situation of a client is good but the bank does not have sufficient funds to make an additional loan, private lenders may step in with the permission and within the limits considered safe by the bank. No formal guaranty is furnished in these cases, the bank merely reserving priority for itself in the satisfaction of claims against the borrower. The rates of interest on such loans are as a rule several percent higher than those charged for direct loans from the Government-sponsored banks.

In addition to the Bank of Mexico, a second Government-sponsored lending agency is currently assisting in mobilizing loanable funds for the two agricultural banks through financial operations discussed more fully on p. 44. This is the *National Foreign Commerce Bank* (Banco Nacional de Comercio Exterior) which was created in 1937 to promote the exportation of Mexican goods with special emphasis on agricultural products. Its lending to agriculture is not confined to collaboration with the two agricultural banks; direct loans to farmers' marketing associations and cooperatives are also being made.

PROBLEMS OF THE GOVERNMENT-SPONSORED CREDIT INSTITUTIONS

Neither the National Bank of Agricultural Credit nor the National Bank of Ejidal Credit are intended to displace or compete with private banking facilities. Their foremost duty is to make sorely-needed credit available to the financially weaker groups of farmers. In addition, the banks are entrusted with the expensive task of educating, organizing, and supervising the recipients of credit. Any appraisal of the outcome of their operations must give full recognition to the financial burden which such duties constitute.

Besides this, there have been other drains. All expenses incurred by the National Bank of Agricultural Credit in connection with administering the Federal irrigation districts are supposed to be covered from a special trust fund created within the bank by the Federal Government. But, as a matter of fact, at the end of 1941 the Government was about 9 million pesos in arrears with its payments into the fund and costs had to be sustained by the bank out of its own operating funds.

The National Bank of Ejidal Credit has the very poorest class of farmer to deal with and yet at the same time the one most

in need of financial aid. At times, local societies of ejidal credit unable to repay loans account for as much as one-third of the number borrowing.

Throughout the history of these banks, opinion in banking and agrarian circles has wavered between emphasis on their social functions and the necessity of making a good showing in their balance sheets. At the present time the pendulum of appraisal has swung to the business side of the ledger. As a consequence of this current attitude, special attention is being focused on the operations of the National Bank of Ejidal Credit. Early in 1942 a plan was proposed whereby a special trust fund would be created within the bank by the Federal Government. Loans to insolvent ejidatarios would be made from this fund and the bank would be relieved somewhat from shouldering the entire burden of frankly uncollectible loans. Whether this would work in the light of the past history of the Government's failure to supply its promised contributions in like instances is a moot question.

But the way in which this question of properly balancing social agency and banking concern activities is settled - and it must be settled sooner or later - will determine the future of the two banks and the effectiveness of Mexico's entire agricultural credit system.

VOLUME OF AGRICULTURAL CREDIT

Detailed statistical data on the volume of total lending to agriculture or the amount outstanding with sources other than the National Bank of Agricultural Credit and the National Bank of Ejidal Credit are not available. In an admittedly rough estimate, one writer¹⁵ states that of the 1,583,041,500 pesos loaned by 66 private banks during 1940, only 154,928,400 pesos was classified as agricultural. This would appear to indicate that less than 10 percent of private bank lending went to this sector of the economy but it is likely that a goodly portion of that classed as commercial or industrial is reloaned to agriculture by warehouse owners, wholesalers, processors, manufacturers, merchants, etc.

According to the same source, capital which the two Government-sponsored lending agencies had invested as of 1940 amounted to 316,202,886 pesos. Information on the loans made by these institutions from organization to 1941 is given in tables 8, 9, and 10 and shows that during the year 1940, the two agencies made loans amounting to 71,880,000 pesos.

¹⁵Rosada de la Espada, Diego, op. cit, pp. 11-12.

TABLE 8. - Loans and recoveries of the National Bank of Agricultural Credit, 1926-1941

Year	Loans to			Recoveries from		
	Societies	Individuals	All	Societies	Individuals	All
	1,000 pesos	1,000 pesos	1,000 pesos	1,000 pesos	1,000 pesos	1,000 pesos
1926..	329	16,325	16,654	12	7,996	8,008
1927..	1,230	7,348	8,578	136	4,266	4,402
1928..	1,141	3,926	5,067	565	8,378	8,943
1929..	1,831	1,271	3,102	736	2,301	3,037
1930..	1,949	1,050	2,999	1,247	1,540	2,787
1931..	603	559	1,162	1,347	566	1,913
1932..	1,625	455	2,080	940	398	1,338
1933..	2,174	.....	2,174	1,458	643	2,101
1934..	6,087	103	6,190	3,224	659	3,883
1935..	18,689	251	18,940	3,688	108	3,796
1936..	11,459	.....	11,459	5,571	48	5,619
1937..	19,154	381	19,535	11,048	262	11,310
1938..	11,212	288	11,500	11,415	380	11,795
1939..	5,620	664	6,284	6,604	666	7,270
1940..	5,888	415	6,303	5,976	415	6,391
1941..	6,551	267	6,818	5,014	418	5,432
Total	95,542	33,303	128,845	58,981	29,044	88,025

Source: *Agricultural Credit in Mexico*. Unpublished report by American Consul Willard Galbraith, Mexico, D. F., May 4, 1938; *Boletín Mensual de la Dirección de Economía Rural*, No. 182, pp. 445 and 451, July 1941; Banco Nacional de Crédito Agrícola, S. A. *Informe* 1938, pp. 119 and 131; *Informe* 1941, pp. 11 and 21.

TABLE 9. - Distribution of loans of the National Bank of Agricultural Credit, 1926-1941

Year	Avío ¹	Refaccionario ¹	Inmobiliariol	Prendariol	Quirografario ¹	All loans
	1,000 pesos	1,000 pesos	1,000 pesos	1,000 pesos	1,000 pesos	1,000 pesos
1926.....	1,905	2,169	331	8,512	3,737	16,654
1927.....	1,653	2,949	409	1,270	2,297	8,578
1928.....	1,294	911	250	743	1,869	5,067
1929.....	2,112	379	197	153	261	3,102
1930.....	1,770	505	7	465	252	2,999
1931.....	517	225	62	303	55	1,162
1932.....	1,067	307	.....	337	369	2,080
1933.....	1,609	416	12	137	.....	2,174
1934.....	3,497	1,670	118	814	91	6,190
1935.....	9,846	7,557	278	377	882	18,940
1936.....	5,847	3,607	33	327	1,645	11,459
1937.....	13,134	5,851	82	275	193	19,535
1938.....	9,339	1,746	4	410	1	11,500
1939.....	5,121	1,022	14	113	14	6,284
1940.....	4,826	1,370	103	4	.....	6,303
1941.....	5,056	1,525	4	1	232	6,818
Total...	68,593	32,209	1,904	14,241	11,898	128,845

¹ For explanation of types of loans, see p. 44.

Source: *Agricultural Credit in Mexico*. Unpublished report by American Consul Willard Galbraith, Mexico, D. F., May 4, 1938; *Boletín Mensual de la Dirección de Economía Rural*, No. 182, p. 445, July 1941; Banco Nacional de Crédito Agrícola, S. A., *Informe* 1941, p. 11.

TABLE 10. - *Loans and recoveries of the National Bank of Ejidal Credit, 1936-1941*

Year	Amounts of loans by indicated types							Recov- eries
	/ Avio	Refac- cion- ario	Inmo- bili- ario	Prend- ario	Quiro- graf- ario	Other	All	
	1,000 pesos	1,000 pesos	1,000 pesos	1,000 pesos	1,000 pesos	1,000 pesos	1,000 pesos	1,000 pesos
1936....	12,740	5,829	467	129	1,046	3,078	23,289	6,174
1937....	48,198	19,886	47	287	296	14,166	82,880	14,349
1938....	53,882	6,736	436	128	279	1,981	63,442	44,971
1939....	60,790	10,018	3,122	437	419	.....	74,786	50,459
1940....	56,440	7,893	783	8	453	.....	65,577	56,134
1941....	56,098	6,862	627	68	141	.....	63,796	46,656
Total..	288,148	57,224	5,482	1,057	2,634	19,225	373,770	218,743

Source: *Anuario Estadístico de los Estados Unidos Mexicanos 1940*
Table 329, p. 534; Banco Nacional de Crédito Ejidal *Informe 1941*, p. 22

Chapter V

Working of the Government-Sponsored Credit Institutions

ORGANIZATION AND OPERATION

The National Banks

THE amending law of 1935 which created the National Bank of Ejidal Credit provided for organizational and administrative machinery parallel and similar in every respect to that prescribed for the National Bank of Agricultural Credit in 1934. Therefore, the description below applies to the set-up in both banks.

Administration is entrusted to a council of nine full-fledged members and five substitutes. Of these, four regular members and two substitutes are chosen by series "A" stockholders, two and one by series "B," and three and two by series "C." Councilors hold office for 4 years and may be displaced only if they are found guilty of violation of the credit laws or of some other crime.

Of the four persons representing series "A" stockholders, two are nominated by the Secretary of Treasury and Public Credit; one by the Secretary of Agriculture and Development; and one by the Agrarian Department. As a matter of actual practice, the Secretary of Agriculture serves as chairman of the council. Those representing series "B" and "C" are selected by a majority vote of the stockholders of each series, except that the Bank of Mexico always appoints one of the series "C" members. Two series "A" members voting against a resolution approved by the rest of the council will prevent action.

Owing to such strong voting power of the Government in the administrative council and in view of the Government's large share in their stock, the two banks may be considered as being definitely official in character although their legal designation is that of a joint stock corporation.

Only persons who are experts in banking or agricultural matters or experienced technicians in the field of agricultural economics are eligible to serve on this administrative council. They are paid 50 pesos for each meeting they attend but never more than 300 pesos a month no matter how great the number of

meetings attended. They also share in the profits of the bank in proportion to their attendance not only at meetings of the council but also at those of the various committees set up within the council to conduct the functions of the bank.

TABLE 11. - *Capital structure of the National Bank of Agricultural Credit and the National Bank of Ejidal Credit, as of December 31, 1941*

Series	National Bank of Agricultural Credit	National Bank of Ejidal Credit
	<i>Pesos</i>	<i>Pesos</i>
"A".....	23,866,190	114,407,320
"B".....	203,050	.....
"C".....	5,702,650	14,868,400
Total.....	29,771,890	119,275,720

¹Of this amount, \$4,733,120 was subscribed by local societies of ejidal credit, \$135,280 by private individuals.

Source: Banco Nacional de Crédito Agrícola, S. A. *Informe 1941*, p. 2; Banco Nacional de Crédito Ejidal, S. A. *Informe 1941*, p. 20.

Each member of the council, as a private individual, must deposit 200 shares of series "C" stock with the bank as a guaranty of the proper performance of his duties. A vigilance committee of two is also provided for, one of its members being elected by the stockholders of series "B" and the other by those of series "C." Each must deposit 100 shares of series "C" stock as a bond.

Twenty percent of any profits made by the bank goes into the reserve fund until the latter equals the amount of share capital. Next, there is set aside an amount sufficient to pay to stockholders of series "C" a preferred dividend of 6 percent. Of the remainder, not more than 10 percent is paid out in bonuses to the officials and employees of the bank and not more than 5 percent to council members. These sums, however, must never be greater than 20 percent of annual employee salaries or than 50 percent of the fees earned during the year by the councilors. If there is a balance remaining, a dividend up to 6 percent on series "A" and "B" stock is declared, but the actual amount is retained by the bank and applied to the subscription of new shares in the same series. Any residue over and above such placements will be allocated to series "C" as an additional dividend or be placed in a special fund, the purpose of which will be determined by the general assembly of stockholders. This discussion of profit distribution is only theoretical because so far neither bank has shown profits.

Agencies and Zone Headquarters

The Agricultural Bank as well as the Ejidal Bank operate from their respective home office located in Mexico City through regional agencies and local zone headquarters established throughout the country where the volume of transactions warrants immediate and continuous attention to the activities of the organized credit societies with which they are dealing. The regional agencies serve mainly to coordinate and direct the work of the zone headquarters or *jefaturas*; the latter are responsible for all of the work germane to actual contact with borrowers not only with respect to authorizing and distributing credit but also technical counsel and the extensive social work carried on among the peasants.

At the end of 1941, the National Bank of Agricultural Credit had 12 regional agencies with jurisdiction over 32 subordinate zone headquarters. There were also 12 independent zone headquarters which were directly responsible to the home office. These agencies and zone headquarters were distributed through only 20 of the 32 Mexican States and by no means covered this territory completely or came anywhere near supplying the credit needs of all those qualifying for loans.

Only two unions of local societies of agricultural credit were in operation as of December 31, 1941.¹⁶ At the close of 1941, the Ejidal Bank had 32 regional agencies and 187 zone headquarters contacting almost all sections of the Republic. Operations were also maintained with 43 societies of public agricultural interest and 30 unions of local societies. Nevertheless, the Ejidal Bank deals with but 13 percent of the total number of ejidatarios.

The duties of the zone chief of either bank go beyond those deriving merely from the distribution of loans. He works constantly with the societies to inform members about improved, scientific farming methods, to advise them in carrying out such projects as the cooperative marketing of their products, teaching them how to combat crop plagues and diseases more effectively, etc. Since one of the chief functions of the National Bank of Ejidal Credit is to "supervise farm organization," the activities of the zone chiefs under its jurisdiction are of a much more direct supervisory character and closely allied to the internal development and operation of the ejidal association.

¹⁶These unions were formed to create and operate certain agricultural industries on a collective basis, to acquire costly agricultural machinery for use by all the societies in a region, to construct small irrigation works, etc.

Generally speaking, as soon as a local society has been organized, it contacts the technical representatives of the particular bank with which it must deal and with their help and collaboration studies the possibilities in regard to land and available equipment; then it formulates a plan - discussed and voted on in general assembly - to be followed during the next crop season. Upon receiving a loan application from the society, the bank in turn initiates an investigation of the agrarian and economic conditions of the community and also forms a plan of operation for the society which gives an exact account of the credits approved and a schedule of disbursement dates. As the society receives the specified sums, it redistributes these amounts in the form of loans to individual members or arranges for their common use, if a collectively organized ejido is the ultimate subject of credit. The bank supervises the use of the loan funds to make sure they are used for the purpose for which they were granted.

Local Credit Societies

In 1941, when the total number of societies in existence was 1,086 with 33,583 members, the National Bank of Agricultural Credit made loans to 591 societies having 20,529 members, and to 11 societies whose membership is unknown. These 11 local societies of agricultural credit were serviced by the National Bank of Ejidal Credit because they were too isolated or remote to be reached by the branch offices of the Agricultural Bank. Although funds for making loans to these societies were obtained from the latter, the Ejidal Bank collected and retained the interest paid as its service charge. In 1942 the Agricultural Bank began to service them directly through the main office at Mexico City.

In 1936, the Ejidal Bank took over from the Agricultural Bank 1,583 societies of ejidatarios having 118,501 members. At the end of 1941, there were 5,540 societies with 435,402 members. Of this number 976 societies (as compared with 606 in 1940) were organized collectively - that is, they existed not only to obtain credit but to carry on collective farming, buying and using equipment in common, and pursuing such projects of a social or economic nature as the establishment of cooperative stores, medical services, etc., which demand intense group participation.

The local associations of borrowers through which the National Bank of Agricultural Credit or the National Bank of Ejidal Credit operate are organized as either societies of agricultural

credit or societies of ejidal credit. All enjoy freedom from Federal taxation. The basic description given below applies to both unless specific distinction is made between the two. The *membership* of agricultural credit association may consist of small- and medium-sized farmers, whether their status is that of owner, tenant, part-owner, share-cropper, or colonist. For the purpose of this law, a small farmer is one who personally farms the land, either alone or with the aid of members of his family or hired help, providing the number of such persons does not exceed five. In the case of a medium-sized farmer, the number of helpers may not exceed ten. Neither may the area of the farm exceed that defined as inaffectible by the current agrarian laws. Small- and medium-sized farmers may form their own groups or may be associated in the same society.

TABLE 12. - *Clients of the National Bank of Agricultural Credit - societies, society members, and private individuals, 1926-41*

Years	Societies in operation		Classification of membership			Private Individuals
			Small- and medium-sized farmers ¹	Colonists in irrigation districts ²	Ejidatarios ³	
	Number	Membership				
1926.....	38	3,481	1,636	.....	1,845	329
1927.....	156	13,585	9,459	.....	4,126	576
1928.....	221	16,542	11,377	.....	5,165	347
1929.....	271	11,491	4,440	.....	7,051	185
1930.....	338	14,760	5,337	.....	9,423	276
1931.....	377	17,240	6,011	.....	11,229	462
1932.....	591	31,083	8,227	.....	22,856	.....
1933.....	900	50,915	11,872	.....	39,043	0
1934.....	1,581	100,790	15,749	.....	85,041	.....
1935.....	2,188	141,266	22,765	.....	118,501	1
1936.....	773	39,317	27,478	8,593	3,246	0
1937.....	875	44,801	32,772	8,783	3,246	.....
1938.....	553	28,621	18,547	6,828	3,246	.....
1939.....	463	26,580	13,132	9,473	3,975	42
1940.....	441	23,639	10,733	9,660	3,246	28
1941.....	⁵ 602	⁵ 20,529	12,955	4,574	3,000	49

¹From 1936, excludes colonists of Irrigation Districts.

²Other than ejidatarios.

³Certain ejidal groups (mostly with National Irrigation Districts) remained under the Bank's jurisdiction after 1936 through special arrangement with the National Bank of Ejidal Credit. There were only three such ejidal societies in 1941.

⁴Home office only.

⁵The number of societies (602) includes the 11 societies serviced by the National Bank of Ejidal Credit whose membership is unknown and therefore not shown in the 20,529 membership figure.

Source: *Boletín Mensual de la Dirección de Economía Rural*, No. 186, November 1941, p. 893; No. 193, June 1942, pp. 429-430.

By law, a local society of agricultural credit may have either unlimited, limited, or supplemental *liability*; the type of liability must be indicated in its official title. A minimum of 20 members is required for societies of unlimited liability; those of supplemental or limited liability may begin operations with no less than 10 members.

TABLE 13. - *Number and membership of local societies of ejidal credit organized and in operation, 1936-41*

Year	Societies		Membership	
	Number organized	Number in operation	Organized societies	Societies in operation
1936.....	3,679	3,002	308,729	257,358
1937.....	4,772	4,472	397,352	390,154
1938.....	4,855	3,517	398,729	254,979
1939.....	5,159	3,410	420,241	263,409
1940.....	5,399	3,473	429,100	239,407
1941.....	5,540	.....	435,402	.....

Source: *Anuario Estadístico de los Estados Unidos Mexicanos 1940*. Mexico, 1942. Tables 325-328, pp. 531-533; Banco Nacional de Crédito Ejidal, S. A. *Informe 1941*, p. 10.

Limited liability is that in which each member of a society is liable only to the extent of his investment or contribution - in this case, payments into the "social fund," explained more specifically below. Supplemental liability makes members jointly liable for an additional amount fixed by the constitution or for at least twice the share in the social fund. Unlimited liability requires members to back up the obligations of the society jointly with all their possessions.

At the present time most societies are of unlimited liability, but since this works a hardship on the more conscientious and prosperous members the Bank has not always insisted upon the feature of joint liability. Few societies have been established with supplemental liability but since 1940 this form of responsibility has been recommended to new associations as they are formed. As of October 31, 1941, there were 557 societies with unlimited, 8 with supplemental, and none with limited liability.

Local societies of ejidal credit must be formed within the ejidal center of which the members are a part and may, of course, be constituted only of ejidatarios. Such societies must invariably be of unlimited joint liability and may receive loans from the Ejidal Bank only if the ejido has been granted possession of the land in accordance with Article 27 of the Constitution and applicable regulatory laws. Participation of not less than 51 percent of the ejidatarios is imperative and there must be at least 15 members.

Since neither type of society possesses what ordinarily constitutes the *share capital* of a cooperative, each must provide for the formation of a so-called *social fund* which will in time become the capital (common and indivisible) from which it can meet the credit demands of its members. When the fund amounts to 25 percent of the annual operations, loans made to members with money borrowed from either of the national banks should be supplemented so far as possible from the fund. The latter is maintained until its amount is twice that realized by the society in its annual operations. Members of local agricultural credit societies are supposed to make minimum annual contributions equal to 3 percent of the value of their crops. Members of ejidal societies pay in 5 percent. Actual contributions have been small, however, for there is a widespread feeling among farmers that this constitutes a surcharge on the interest rate they are already paying. In addition, farmers hesitate to "donate" money to the fund because, contrary to the spirit of the law, the fund is sometimes used for operating expenses in addition to the 1 percent interest charge specifically intended for that purpose.

Profits earned by any society are to be allocated as follows: 25 percent to a reserve fund; 25 percent to the social fund until it equals the average annual value of the operations realized over the preceding 5 years; the remainder - plus the 25 percent destined for the social fund after this has reached its maximum - is to be credited to members' savings accounts in proportion to their transactions during the year. In the case of liquidation of a society, any monies remaining in the reserve and social funds after all liabilities have been paid are to be appropriated by the bank and transferred to the new society, if one is formed, at a date later by 1 year from that of dissolution; otherwise, it is to be used in forming a fund for the establishment of a system of agricultural insurance.

The bylaws for each society set up its *administrative structure* in detail. However, there are certain general principles laid down by the Law of Agricultural Credit of January 24, 1934, which apply to all societies.

Ultimate authority is vested in the *general assembly* in which each member has but one vote. In societies of less than 50 members, the general assembly meets at least every 2 months; between 50 and 100 members, twice a year, and more than 100 members, once a year.

In the societies of small- and medium-sized farmers, the *administrative council* is formed by 3 or 5 members elected

annually by the general assembly; all are eligible for reelection. The election is presided over by a representative of the National Bank of Agricultural Credit. The bank may ask the exclusion of one or more members from the administrative council when the best interests of the group are at stake. In such a case, the removal must be ratified by a majority of the members. When a society refuses to concur in a stay of appointment, the National Bank of Agricultural Credit may suspend any credit already negotiated and demand immediate repayment of balances outstanding.

The current business of an agricultural credit society is supervised also by a *vigilance committee* composed of three members elected by a majority of votes in general assembly. A rather unusual check and balance system is provided thereby. If in the election of the administrative council there are two factions and the minority receives more than 30 percent of the votes, the vigilance committee is to be made up entirely of candidates from the defeated party. When the minority group receives only 20 percent of the votes, it will designate two members of the vigilance committee; and if only 10 percent but one member. This committee is entrusted with seeing that all operations are performed in accordance with the Federal agricultural credit law and the statutes of the society, as well as that the society itself fulfills its duties, that the social fund is properly and prudently invested, that the members meet the obligations incumbent upon them, and that the employees and officers of the society carry out their work honestly and efficiently.

When a local society of ejidal credit is formed in an ejido the Commissariat and the vigilance committee of the ejido (p. 11) assume the functions of the administrative council and the vigilance committee of the credit society.

Immediate direction of the affairs of either type of society is entrusted to an *executive officer* elected from among the members of the administrative council. He collaborates with the *zone chief* (appointed by one of the banks) who has charge of finances as well as custody of crops and supervises all technical aspects of operations. Bookkeeping is in the hands of an accountant paid and appointed by the National Bank of Ejidal Credit for ejidatarios and by the National Bank of Agricultural Credit for societies of small farmers; in the case of medium-sized farmers, he is chosen by the society from three candidates nominated by the National Bank of Agricultural Credit.

LENDING POLICIES

The outstanding characteristic of the lending policies is that no matter what constitutes the stated or legally established guarantee of a loan the real and effective guarantee lies in control by the credit institution over the disposition of the loan proceeds. Neither bank plays the simple role of investor and nothing more - rather, each exercises careful supervision and control not only to insure financial recovery but also to derive increased benefit to the peasants themselves.

Types of Loans

With funds obtained from either of the banks, local societies may make four different types of loans, namely - commercial, avio, refaccionario, and inmobiliario loans.

Two types of commercial loans are made for periods not exceeding 180 days: *prendario* loans up to 80 percent of the value of crops already harvested and warehoused which would correspond most nearly to what we know as bonded warehouse loans; *quirografario* loans without the security of already-harvested crops but guaranteed by the signature of two persons of recognized financial standing, in other words character loans. In this latter case, the amount may not exceed 20 percent of the annual value of the borrower's crops and other income.

To carry on certain commercial banking activities (such as discounting promissory notes and warehouse certificates for clients, etc.) incident to advancing these short-term funds to societies, the National Bank of Agricultural Credit has set up its own Commercial Banking Department. In April 1940 the Department's scope of operation was widened to include control over the marketing and sale of societies' crops. Although activities in this sphere are not as yet fully under way, the Bank has found it necessary to rely on financial assistance from the National Foreign Commerce Bank in order to get a particular crop (for example, chick peas) to the export market on time and in the proper quality and condition. The same is true of the National Bank of Ejidal Credit. Assistance from the Foreign Commerce Bank rarely consists of direct loans to the other banks. In most instances, a consortium is formed between the Foreign Commerce Bank and one of the two agricultural banks, each time under a special contract. However, to finance the export crop of a particular area as speedily as possible, such consortia have been formed with all three banks pooling funds for the purpose. Finally, in some instances both banks even allowed the Foreign Commerce Bank to step in with direct additional loans to their credit associations.

Avío loans are made for periods not exceeding 18 months to finance the production of a crop in any phase from the purchase of seed to actual harvesting. Such a loan is not to exceed 70 percent of the estimated value of the anticipated crop and must be repaid with receipts from the same production cycle in which it was invested. Considered as security for these credits are the materials acquired through use of the loan as well as the agricultural products obtained, although they are future and pending. Operators not owning the land must prove that they have the right to continue cultivating it throughout the time during which the loan will remain outstanding. The National Bank of Agricultural Credit has adopted the policy of requiring real estate security (collateral) whenever possible or practicable.

Refaccionario loans are made for periods from 1 to 5 years for the preparation of new land for cultivation, the purchase of work animals, fertilizer, farm machinery, and other necessary equipment. Minor construction or improvement works of a non-permanent character and amortizable over a short period may also be financed by a *refaccionario* loan. These advances are not to exceed the value of the work to be effected nor 50 percent of the crops or other returns realized during the period for which the loan is granted. The security taken may be the particular construction effected, machinery, chattels, and equipment purchased and/or the anticipated crops and other agricultural products obtained. Where the borrower is an *ejidatario* the amount of the loan is computed solely on this latter basis and the crops and other products or works brought forth as a result of this investment serve as the actual guaranty. If the nature of the investment permits, amortization takes place in annual installments. Otherwise payment may be postponed during the early years with heavier amortization later.

Inmobiliario advances are made primarily for the purchase of land or for permanent improvements, such as irrigation works, but the law allows great latitude in the loan purposes. For example, the funds may also be used to defray the cost of acquiring, parceling, or colonizing tracts of land; to aid in the construction or maintenance of public works which are of decided benefit to agriculture; they may even be employed in the construction of pertinent railroads and the acquisition of necessary material and equipment; for the purchase or construction of factories or mills (or the machinery and equipment to fit them out) required in the processing, packing, or marketing of agricultural products; and, finally, for the payment of any

debt previously contracted for the operations described above provided the amount outstanding is not greater than 20 percent of the value of the property serving as security.

Inmobiliario loans may not be made to exceed 30 years and repayment must be in regular payments at periods not more than 1 year apart; however, when the nature of the investment justifies it, payments coming due while construction or execution of the work is still proceeding may be deferred - but never for longer than 3 years. Such loans must be secured by a first mortgage on the property for whose acquisition, construction, or improvement the loan was requested or on other real estate or fixed property that the borrower might have to offer.

The amount of an inmobiliario loan may not exceed the cost - estimated by an expert - of the land to be purchased or the project to be carried out. Neither may the loan exceed 30 percent of the expected value of the crops or receipts of the interested party during the period in which amortization is to be effected. When the borrower is an ejidatario, the amount of the loan is to be computed solely on the basis of the expected agricultural return.

Credit for the acquisition of land which would increase the size of a holding beyond that allowed by the agrarian laws may in no case be granted either to members of the society through which the loan is negotiated or to private individuals not associated with any society.

The National Bank of Agricultural Credit does not make the commercial loans referred to above to individual small- or medium-sized farmers. It is authorized, however, to make direct avío, refaccionario, or inmobiliario loans to them under conditions somewhat more stringent than in the case of farmers organized in societies. The borrower must offer his expected crops as security as well as either a first mortgage on his property or satisfactory bank security. An avío loan may not exceed 60 percent of the probable value of the crop. In no case may the credit extended exceed 33 percent of the value of the client's property nor may more than 25,000 pesos be outstanding against him at any one time.

Interest Rates and Other Charges

The National Bank of Agricultural Credit lends to societies at 9 percent, the Ejidal Bank at 8 percent. All societies charge their members an additional 1 percent which is used to cover the administrative and operating expenses. With the object of encouraging the formation of credit societies the

National Bank of Agricultural Credit charges individual borrowers 2 percent more than the societies, that is, 11 percent.

By law each borrower, whether society or individual, is required to subscribe to stock in the lending institution. In the case of commercial or avio loans, the borrower must subscribe an amount equal to 1 percent of the loan received each time he borrows. One initial subscription equivalent to 3 percent is required in the case of refaccionario loans and 5 percent for inmobiliario. Since no stock dividends have actually been paid by either bank, such a requirement in reality constitutes an extra charge for the privilege of receiving a loan. Moreover, the incongruity of keeping borrowers tied to the lending institution through purchase of shares in it while at the same time insisting that the majority of customers, namely those organized in societies, provide for the formation of their own loan capital by creation of a social fund, appears to result in a double charge. Mention has already been made of the opinion on the part of many that payments into the social fund are tantamount to an interest surcharge.

Appendix

(Based on information supplied by Ramón Fernández y Fernández)

New features of the agricultural credit system introduced since this report was prepared are the following:

1. A banking consortium was formed between the Government-sponsored agricultural banks, other banks, and a Government corporation (Nacional Reguladora y Distribuidora, S.A. de C.P.). The consortium will buy and sell in the free market agricultural products with the object of regulating prices.

2. In June 1943 the Government established an initial fund of 5,000,000 pesos in trust of the Bank of Mexico to compensate private banks for losses in lending to farmers and cattlemen. The guarantee will be 100 percent if the loss is the result of some new agrarian policy, but it shall not exceed 15 percent of the loan if the loss is due to risks ordinarily taken in lending to agriculture. More private capital is expected to flow into agriculture owing to this measure, which is part of the war effort to increase production. Concurrently an amendment to the National Bank Act lifted the limitations to which banks of deposit were subject in making farm loans.

3. Also in June 1943 the Government announced that the National Bank of Agricultural Credit will organize and finance credit societies among those graduates of agricultural schools who have formed agricultural colonies.

4. In July 1943 the Government established in trust of the National Bank of Agricultural Credit a fund of 5,000,000 pesos for financing agricultural colonies of retired soldiers.

5. A new agricultural credit law (December 23, 1942; Diario Oficial, March 27, 1943) modified in a number of more or less important respects the legislation previously discussed. However, the 251 articles of the new law aim mainly at better integration of the credit system and leave its basic elements undisturbed. The National Bank of Ejidal Credit and the National Bank of Agricultural Credit remain as principal agencies.

Changes Resulting From the Agricultural Credit Law of 1943

A basic structural change is the addition of *regional banks* to the Government-sponsored system. This is not an entirely new feature, since similar institutions had been actively engaged in lending under the 1926 law and were envisaged in the legislation of 1931 and 1934 until the reform law of 1935 abolished

the regional bank concept. Revival by the new law has the object of providing a basis for future regional credit expansion under Government sponsorship and supervision.

Furthermore, like the societies of collective agricultural interest, the regional banks are to serve as an organizational link between ejidal and agricultural credit societies. They may do business with either type of society and their capital stock of series "Y" may be subscribed by the National Bank of Ejidal Credit and the National Bank of Agricultural Credit, or jointly by both in direct relation to the number of ejidal or agricultural credit societies in the particular region.

In addition to this series there is a series "Z" to be subscribed by the local societies, by unions of local societies and by societies of collective agricultural interest or finally by individual farmers and persons or corporations otherwise connected with the agriculture of the region.

Shares of series "Y" may account at the maximum for 50 percent of the total share capital. Therefore, the larger part of the share capital may consist of series "Z" shares subscribed by sources other than the two national banks. Accordingly, the administrative council of the regional banks is appointed by the shareholders on the basis of the number of shares held, which means that it may be controlled by private capital as much and even more than by the two national banks. Shares of series "Z" are given preference in the payment of dividends and in liquidation settlements.

Such incentives, as well as the Government guarantee afforded by participation of the two national agricultural credit banks, indicate that the regional banks are designed to attract private capital for farm loan investment.

Livestock and agricultural banks previously established in accordance with the Credit Agency Act, that is as private banks, may be transformed into regional banks of the system.

New functions of the National Bank of Ejidal Credit are: (1) Supervision and to some extent *financing of ejidatario housing projects*; (2) establishment and temporary administration of a crop insurance fund, pending the creation of a special agency for the purpose; and (3) buying and selling farm products in the open market in order to regulate prices upon request of and with funds provided by the Federal Government.

As far as local societies of ejidal credit are concerned, a former loan condition, namely, *subscription of shares of series "C" of the National Bank of Ejidal Credit*, is made optional. However, the corresponding charges to the borrower are not eliminated thereby. Reserves thus accumulated will be drawn

upon to cover the debts of ejidatarios whose loans have become uncollectible through no fault of their own and, in part, will constitute the crop insurance fund referred to above. Ceasing to subscribe stock will not deprive the ejidatarios of their rights to voice and vote in the administrative affairs of the Ejidal Bank. The system of representation established by previous legislation is continued. Stock subscriptions required in this connection will be made by the Government on behalf of the ejidatarios.

Members of ejidal credit societies are freed from the obligation to pay annually 5 percent of the value of their crops into the "*social fund*" if because of crop failure or similar calamities gross returns do not cover debts.

So far, ejidal credit societies had to adopt unlimited *liability*. The new law permits changing to limited or supplemental liability if there are adequate reserves. In fact, with respect to the objectives of these societies the emphasis is now on such forms of economic and technical organization as will result in larger profits, while formerly it was on details of organization along collective lines.

The maximum *duration of refaccionario loans* made by the two national banks is lengthened from the usual 5 years to 8 in the case of purchase of high grade and costly agricultural machinery, and to 12 years in the case of plantations producing only after from 5 to 7 years. The latter type of loan is repayable during the 5 years beginning when the plantation comes into production; individual farmers are eligible only if their record of experience and performance is such as to guarantee good results and their financial resources assure annual payment of *interest*. Societies of ejidatarios may obtain plantation loans without having to pay interest annually, but the amounts due are added to the principal and repayable during the 7 years following the first production of the plantation.

Loans on *annual crops* whose cultivation has been designated to be of *public interest* are subject to only 4 percent per annum. This rate applies also to *inmobiliario loans* (real estate) from the Ejidal Bank for sanitary engineering projects and the construction of ejidatario dwellings, as well as for the purchase of additional land by an ejido, a purpose newly authorized by the law. The rate of interest on *other loans* made by the Ejidal Bank to a local society is now definitely fixed at 8 percent per annum, i.e., the rate formerly in effect although not prescribed by law. Interest rates of loans by the National Bank of Agricultural Credit are not regulated by the law.

The new law prohibits charging any *penalty interest* on payments in arrears. For delinquencies in the ejidal system, provided default is due to reasons beyond the control of the debtor and not attributable to lack of industry or attention on his part, the following scale of reduced interest rates on the amount in arrears is established: First year, 6 percent; second year, 5; third year, 4; fourth year, 3; fifth and subsequent years, 2 percent.

In order to prevent annual payments of ejidatario borrowers from being credited entirely or in large part as payments for interest in arrears with the result that large amounts of principal subject to interest would remain outstanding, the law sets up a *priority system for crediting payments*. Among the 10 different ratings established, payments on principal of loans in default rank before payments on interest.

For ejidatarios and their local societies which are members of unions acceptance of the charge of *1 percent additional interest* for the purpose of sustaining the local society or union involved is made optional.

Under previous legislation loans were considered subject to legal *recovery proceedings* if in arrears for more than 1 year as to principal and interest, or for more than 2 years as to principal. As far as the National Bank of Agricultural Credit and the regional banks are concerned, the new law preserves the aforementioned ruling. The Ejidal Credit Bank may start recovery proceedings only in case of bad faith on the part of an ejidal credit society in arrears. However, the law permits societies placed in recovery status by the Ejidal Bank or otherwise unable to obtain additional credit from it to borrow from other lenders. The societies may offer as security machinery or equipment purchased with loans previously granted by the bank, if they furnish bond for the depreciation of the equipment and oblige themselves to pay on their arrears at least 20 percent of the difference between the value of the crops and the operating debts of the current crop year.

Changes of minor importance, not discussed here in detail, affect the following topics:

Composition of the administrative councils of the two national agricultural credit banks. Minimum number of local credit societies required in the formation of unions of societies set at six for agricultural and four for ejidal societies. Direct lending by the two national banks to societies under jurisdiction of a union or regional bank is no longer subject to approval by administrative councils. Restriction to 50,000 pesos maximum in lending to any one local credit society is removed for the

Ejidal Credit Bank, but maintained for the National Bank of Agricultural Credit. Limitation of credit from a union of ejidal credit societies to any one local society is raised from 20 to 30 percent of total loanable funds received by the union during the fiscal year. The limit of loans to any one member of an ejidal credit society formerly 10 percent of total loanable funds received by society is now based on acreage cultivated or number of days worked. National Bank of Agricultural Credit may discount paper of regional banks up to 80 percent of value instead of 75 percent. Absolute and relative loan limits are raised for loans by National Bank of Agricultural Credit to nonmembers of agricultural credit societies.

New features of minor importance introduced by the law are the following:

"Central unions" (or rather federations) of unions of local credit societies appear for the first time. Consent must be obtained from definite percentages of farmers living in the area of a public utility project undertaken by a society of collective agricultural interest. All provisions referring to ejidatarios are also made applicable to small farmers outside of ejidos, but owning not more than 20 hectares of irrigated and 40 hectares of seasonal land. Real estate loans (purchase of land, construction of processing plants, repair shops, etc.) to ejidatarios are to be on a collective basis, housing loans on an individual basis, but application by minimum groups is required. Loans to ejidal credit societies from lenders other than Ejidal Credit Bank are subject to provisions of this law. The social fund of ejidal credit societies may be used for repaying their debts with the Ejidal Credit Bank or for making loans free of interest to members. Loan registration by the two national agricultural credit banks is subject to regulations issued jointly by the Ministers of Industry and Public Credit and of Agriculture; loans to credit societies whose members cultivate 20 hectares or less of irrigated land, or an equivalent area of other land, may be exempt from official registration with the object of saving expense to society. All local societies are exempted from submitting annual balance sheets and monthly statements of condition to the national bank with which they are affiliated. The Ejidal Credit Bank is to change its accounting system and report annually to local societies on its progress. Publication of a list of debtors in default is made compulsory for the National Bank of Agricultural Credit, but not for the Ejidal Credit Bank. The Ejidal Bank must show in its balance sheet the action taken with regard to reduction of interest rates and transfer of shares to collective guarantee fund.

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